VA INSPECTOR GENERAL'S ACTIVITIES IN COMBATING WASTE, FRAUD AND ABUSE, AND REVIEW OF VA DEBT COLLECTION EFFORTS

HEARING

BEFORE THE

SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS

OF THE

COMMITTEE ON VETERANS' AFFAIRS HOUSE OF REPRESENTATIVES

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VA INSPECTOR GENERAL'S ACTIVITIES IN COMBATING WASTE, FRAUD AND ABUSE, AND REVIEW OF VA DEBT-COLLECTION EFFORTS

WEDNESDAY, JUNE 9, 1982

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS,
COMMITTEE ON VETERANS' AFFAIRS,
Washington, D.C.

The subcommittee met, pursuant to notice, at 8:30 a.m., in room 334, Cannon House Office Building, Hon. G.V. (Sonny) Montgomery (chairman of the subcommittee) presiding.

Present: Representatives Montgomery, Hall, and Mica.

OPENING STATEMENT OF CHAIRMAN MONTGOMERY

Mr. MONTGOMERY. Good morning. The subcommittee will come to order.

We are meeting this morning to review the Veterans' Administration Inspector General's activities in combating waste, fraud and abuse, and to review the adequacies of VA debt-collection efforts.

The VA Office of Inspector General was established on January 1, 1978, to consolidate audit, investigation, and personnel security operations into a cohesive, independent organization. The Inspector General has authority to inquire into all VA programs and activities, as well as the related activities of persons or parties performing services under grants, contracts, or other agreements. The inquiries may be in the form of audits, surveys, criminal and other investigations, personnel security checks or other appropriate methods. The two primary purposes of these inquiries are to assist all levels of VA management by identifying and reporting on problem areas, weaknesses, deficiencies in procedures, policies, program implementation, and employee conduct; and to recommend appropriate corrective actions.

The Inspector General is responsible for keeping the Administrator and the Congress fully informed about problems and deficiencies in VA programs and operations, and the need for and status of corrective action. With this in mind, I would like to state that I strongly support the independent role of the Inspector General and the duties and responsibilities given to him by the Congress. I think the Inspector General can enhance the ability of the VA to provide timely benefits and services to veterans, particularly in these uncertain budgetary times.

I would like to welcome Mr. Frank Sato in his first formal appearance before the subcommittee. We are certainly interested in

learning of the Inspector General's actions to combat waste, fraud, and abuse within the VA and of any other duties that have been bestowed upon him by the Administrator. We will, of course, have specific questions for him as this hearing progresses.

Members of the subcommittee may recall our hearing on May 19, 1981, regarding overpayments and defaulted VA loans. At that time, Miss Dorothy Starbuck, Chief Benefits Director, informed the subcommittee that the VA had 559,753 overpayment or indebtedness accounts, which amounted to over $545.7 million. Miss Starbuck explained that the amount was being reduced through the implementation of Public Law 96-466, which gave the Administrator of Veterans' Affairs new authorities to pursue debt collection activities.

Miss Starbuck stated in her prepared testimony that "the majority of debts owed to the VA which arise from our other benefit programs are centrally maintained and controlled in our automated debt collection system [CARS]. This system automatically generates demands for payment, followup notices on delinquent repayment agreements and referrals to Department of Justice and VA district counsels as appropriate."

We are anxious to receive an update on VA's implementation of debt collection procedures and its success in collecting moneys owed the Government. It has been over a year since our last hearing, and we expect that all mechanisms for debt collection are in place and being fully utilized.

I am sorry that some of my colleagues are not here this morning. Mr. Hillis will be here, I hope, in just a few minutes, the ranking minority member on this subcommittee.

Mr. MONTGOMERY. Our first witness this morning is Mr. Frank Sato, the Inspector General of the Veterans' Administration. This is Mr. Sato's initial appearance before this subcommittee, and we would like to welcome you, Mr. Inspector General. You may proceed and you may introduce those at the table with you. Your full statement will be put in the record.[1]

STATEMENT OF FRANK S. SATO, INSPECTOR GENERAL, ACCOMPANIED BY BOBBY OAKLEY, ASSISTANT INSPECTOR GENERAL FOR AUDITING; RENALD MORANI, ASSISTANT INSPECTOR GENERAL FOR POLICY, PLANNING, AND RESOURCES; AND MORRIS SILVERSTEIN, DEPUTY INSPECTOR GENERAL, VETERANS' ADMINISTRATION

Mr. SATO. Thank you very much, Mr. Chairman. I welcome this opportunity to appear before you to review the progress and accomplishments of the Office of the Inspector General.

I have with me today, on my left, Mr. Bobby Oakley, who is the Assistant Inspector General for Auditing. On my immediate right is Mr. Renald Morani, Assistant Inspector General for Policy, Planning, and Resources; and to my far right, Mr. Morris Silverstein, the Deputy Inspector General.

As you know, I was appointed Inspector General of the Veterans' Administration by the President after confirmation by the Senate

[1] The prepared statement of Mr. Sato appears on p. 27.

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on July 31, 1981. I also served as the first Inspector General of the Department of Transportation from May 1979 to January 1981. Previous to that time, I held audit positions in the Department of Defense and the Department of the Air Force, having served some 25½ years in the DOD.

As the Veterans' Administration Inspector General, I am responsible for all audit and investigative activities within the agency, as outlined in the Inspector General Act of 1978. The VA Office of Inspector General was established on January 1, 1978, to consolidate the audit, investigation, and personnel security operations into a cohesive, independent, and objective organization.

To assure independence and objectivity, I report directly to the Administrator of Veterans' Affairs. The Inspector General has authority to inquire into all VA programs and activities, as well as related activities performed under grants, contracts, or other agreements. These inquiries may be made in the form of audits, surveys, investigations, or other appropriate methods. The two primary purposes of these inquiries are to assist all levels of VA management by identifying and reporting problem areas, weaknesses, or deficiencies in procedures, policies, program implementation, or employee conduct, and to recommend appropriate corrective actions.

The operations of the Office of Inspector General neither replace established lines of operating authority nor eliminate the need for VA departments and staff offices to take reasonable measures to protect and enhance the integrity and effectiveness of their operations.

As Inspector General, I am responsible for providing leadership and coordination for recommending policies designed to promote economy, efficiency, and effectiveness in the administration of programs and operations, as well as to detect and prevent fraud, waste, and mismanagement. In this regard, I must keep the Administrator and the Congress fully informed about problems and deficiencies in VA programs and operations, and the need for, and status of, corrective action.

The Administrator has provided strong support for all of our activities and operations, and I appreciate your words of support this morning. We have also experienced general acceptance and support of our recommendations by senior program personnel. Our audit processing procedures require that recommendations be fully discussed with the program manager responsible for implementing corrective action. When resolution cannot be reached at that level, members of my senior staff discuss the differences with senior program staff at the VA central office. When resolution cannot be reached at that level, the issue is referred to the Deputy Administrator. We have had only one such referral to the Deputy Administrator since my appointment.

To acquire the knowledge and skills necessary to carry out the functions and duties of the Office of Inspector General, I am authorized by law to select, appoint, and employ staff in accordance with the provisions of title 5, United States Code, and to enter into contracts or other arrangements.

Consistent with existing statutory restrictions and regulations, I am also empowered to request information, records and assistance from Federal, State, and local government agencies. When, in my

judgment, these requests are unreasonably refused, I must report the circumstances to the Administrator and to the Congress.

The basic organizational structure of the VA Office of Inspector General was created in January 1978. At that time, the organization consisted of four offices in the central office and four regional offices. A reorganization was approved in February of this year, and certain activities, scattered among several offices, have been consolidated into a new Office of Policy, Planning, and Resources in Central Office.

Audit and investigative capabilities have been enhanced by assigning direct operational responsibilities to Central Office and by increasing the number of regional IG offices from four to seven. An additional regional office will be added in fiscal year 1983. As a result of consolidating administrative functions and the increased application of resources to direct operational activities, the resources allocated to the performance of audits and investigations were increased from 56 percent to 76 percent.

A workload and staffing assessment, made since I have been onboard, indicates a staff of 394 full-time employees is required for optimum functional capability. The total authorized ceiling for the Office of Inspector General for fiscal year 1981 was 349 permanent full-time employees.

For fiscal year 1982, the ceiling was increased by 11, to 360. The approved Office of Inspector General budget for fiscal year 1982 is $14.4 million. The Office's proposed fiscal year 1983 budget of $15.4 million will support the current ceiling of 360 full-time employees and anticipated operating expenses.

Between April 1981 and March 1982, the period covered by the last two semiannual reports to the Congress, 129 internal and 336 external audit reports were issued, representing some $156 million in costs avoided and $3 million in recoveries. While performing these audits, the planned cyclical coverage of the 172 VA medical centers has been maintained so all locations are covered at least once every 3 years.

Similarly, investigation activities resulted in slightly over $1 million in recoveries, fines, and penalties, and $13 million in costs avoided. During this period, 53 indictments and 40 convictions were obtained.

I would like to briefly highlight the impact of some of our efforts on construction activities, medical and other benefits programs, and debt management, particularly avoidance of indebtedness to the VA resulting from beneficiary overpayments.

A series of reviews of medical center construction projects disclosed that facility mission statements and workload projections have not always been well defined, nor have construction planning techniques led to the most efficient use of the agency's resources.

For example, our review of eight planned replacement domiciliaries, projected to cost $120 million, disclosed that nearly $77 million could be avoided by renovating existing structures rather than building new facilities. Additionally, our suggested renovation alternatives would provide a greater number of beds. Management has concurred with our recommendation to reevaluate domiciliary replacement plans and to redefine the domiciliary program mission.

We have also reported instances where more efficient use of resources could result in operating economies. Notable in this regard is the VA Rehabilitation Engineering Center in New York, which has an annual operating budget of $10 million. Problems reported at that location raised serious concerns about the effectiveness of the Center's operations.

Similarly, we have issued audit reports which have had substantial impact on program economies in the Department of Veterans Benefits. We reported program deficiencies in education program reenrollment procedures which, if corrected, could result in savings of nearly $16 million. We also conducted a series of computer matching projects which identified duplicate payments to veteran beneficiaries. In one computer match, we identified nearly 66,000 employed Federal personnel who could owe the VA some $37 million. Another matching project identified 465 VA employees, each earning more than $15,000 annually and having current health insurance policies, who had received free medical care in VA facilities for non-service-connected conditions.

Our investigative activities were generally targeted at fraud and abuse in both VA medical and benefits programs. A significant number of indictments and convictions resulted from investigations of illegal drug activities at one VA medical center. Other investigations in the medical program area include cases involving the misuse of Government property, embezzlement, contract fraud, conflicts of interest, and false medical research.

Benefits program investigations included cases involving fraudulent acceptance of payments, false claims, and false documentation in the loan guaranty program; cases involving correspondence school fraud, fraudulent certification to obtain higher education, and conspiracy to defraud in the education program; and a bribery case involving a VA employee in the compensation and pension program.

Our investigation of Federal Employees Compensation Act irregularities conducted jointly with the Department of Labor, resulted in significant savings to the VA and triggered a nationwide effort from which additional savings are anticipated. For example, in the Atlanta area, the joint VA-Department of Labor pilot project resulted in projected savings to the VA of some $5.3 million. We are also working with the Department of Labor on a nationwide project and, to date, have achieved a cost saving of approximately $2.7 million. This national review is still ongoing and we anticipate significant additional savings during the remainder of this fiscal year.

Speaking briefly of the Inspector General's role in the agency's debt collection activities, my office serves as an ad hoc advisor to the VA debt collection official, the Associate Deputy General Counsel. We are also responsible for reviewing the effectiveness of the VA debt collection program. In this regard, we have actively participated in curtailing identifiable outstanding accounts receivable and the accumulation of additional debts owed the VA.

In addition to the completed computer match projects I mentioned earlier, we are matching compensation and pension payments against the national file of deceased persons. Preliminary results indicate that a number of payments are still issued to deceased persons, or their next-of-kin. These payments should be ter-

minated and collection initiated to recoup the improper payments. The Administrator has targeted debt collection activities as a primary emphasis area in fiscal year 1983. We will continue to work with the VA program staff to reduce the level of outstanding debts.

I would like to give a brief synopsis of some of the ongoing and currently planned activities concerning my Office's oversight role and interagency activities.

The Office of Inspector General has oversight responsibilities for the agency's implementation of OMB Circulars A-76 and A-123. In connection with A-76, "Policies for Acquiring Commercial or Industrial Type Products and Services Needed by the Government," we have not performed any audits or suggested cost comparison studies. However, oversight of implementation of OMB Circular A-76 requirements will be accomplished through postcost comparison audits and by management and compliance reviews.

OMB Circular A-123 prescribes policies and standards for establishing and maintaining internal controls. I think this is a very key element in the prevention aspects of our responsibilities under the Inspector General Act. I serve as an ex-officio member of the agency's internal control committee, which is headed by the Deputy Administrator. As an initial step, my office conducted a review of all major VA programs and activities, applying A-123 criteria. A list of the most vulnerable areas was furnished to the concerned VA departments for consideration during their own assessments. In addition to our audits of internal controls, we will monitor and evaluate the effectiveness of and compliance with OMB requirements concerning internal control review activities.

As part of the President's Council on Integrity and Efficiency coordinated effort to combat fraud, waste, and mismanagement in Government programs, the VA Office of Inspector General has been designated the lead agency in the project entitled, "Federal Employees Receiving Government Assistance." Computer matching the records of over 10 million Federal, civilian, and military personnel and annuitants has begun. These matches will be used to identify persons who improperly receive Federal assistance and/or have delinquent debts. Fifteen income-dependent programs, in which Federal employment usually precludes entitlement to Federal benefits, will be reviewed. Participants include the Offices of Inspector General of the Departments of Education, Labor, Health and Human Services, Agriculture, and Transportation, as well as the Veterans' Administration.

This concludes my prepared statement, Mr. Chairman. I appreciate the opportunity to describe my operations to this committee and would be pleased to answer any questions you might have at this time.

Mr. MONTGOMERY. Thank you, Mr. Inspector General.

I am a little surprised, that there are two areas of embarrassment to the Veterans' Administration that you didn't even touch on—the VA hospital employee problem in Poplar Bluff, Mo., and the burial of veterans as paupers out in Los Angeles, Calif.

Does that come under your jurisdiction to look into these matters?

Mr. SATO. Concerning the Poplar Bluff issue, my investigative staff conducted an investigation and I believe a copy of that report

was submitted to this committee. That issue primarily involved the quality of care, so a companion review was conducted by the Department of Medicine and Surgery Medical Inspector's office.

Insofar as the pauper issue in Los Angeles is concerned, we did not get involved in that particular issue.

Mr. MONTGOMERY. Why would that be? I mean, that is a problem with the Veterans' Administration. In fact, I am getting more complaints on that than I am about the Poplar Bluff situation.

Somebody is not doing a good job out there. We are not getting to some of these veterans who probably would be eligible for non-service-connected pension. As I understand it, of all the cases, only four or five would be legitimate, but the general public doesn't know that. They have been pretty smart out there in Los Angeles. They are laying the blame on the Veterans' Administration, as I understand it, and it has not been that much the fault of the Veterans' Administration other than some people should have been on pensions that were not.

Mr. SATO. If I remember correctly Mr. Chairman, this issue was being discussed in the VA just about the time I came on board early last summer, before my confirmation. As nearly as I can recall, the VA General Counsel did look into that issue and made a trip out there. We——

Mr. MONTGOMERY. Maybe it is not under your jurisdiction anyway. Maybe that should be General Counsel's question. You know, it is a problem that we have up here in Congress, and I just thought maybe you could update us some on that.

Mr. SATO. Mr. Chairman, in this kind of issue, if we had a specific request to look at a problem area, whether it be the Los Angeles situation or Poplar Bluff, we could determine if we could be of help and assistance.

Mr. MONTGOMERY. Didn't you support what the director of the Poplar Bluff hospital did, when they let the lady go, and now they have had to completely reverse what they did out there? That brought us a lot of bad publicity. That is what has us concerned. We are trying to do a good job here on the Hill and these things set us back. You have a big staff, and it looks like you could get on top of things like that. It is real important to us, as far as this committee is concerned.

Mr. SATO. Our investigation of Poplar Bluff showed that, yes, there was patient abuse; it had been reported; and actions had been taken against the nursing assistants who were involved. We felt sufficient action had not been taken and recommended that the Department of Medicine and Surgery take further administrative actions.

Insofar as the charge regarding reprisal action against the complainant was concerned, as I recall, when we did our review, her complaint had just come in. One of the things we noted was that at the time, we felt the complaints would not substantiate a reprisal charge because the lady had been very recently promoted. A board of inquiry was held just about the same time, but this got into the matter of quality of care. Therefore, it was our judgment that the issue came under the responsibility of the Medical Inspector. We asked the Office of the Medical Inspector to do some further review

work and, as I understand, the reinstatement decision resulted from that additional review.

Mr. MONTGOMERY. In another area, I recently wrote you to express my concern about reports I had received from the field which questioned the medical facility construction expertise and audit procedures used by your own field auditors.

Where are your auditors from, and please comment on the reported criticism.

Mr. SATO. First of all, concerning the audit staff, Mr. Chairman, I believe the VA Office of Inspector General probably has one of the best multidisciplinary staffs combining a blend of auditors, audit personnel, management analysts, and operations employees who have come up through the VA system. The audit profession has generally been going in this direction.

Insofar as some of the criticism that apparently has been reported to your Committee about some of our audit work, my experience over the years has been that sometimes when we do work that is critical in nature, we expect a certain amount of attack on our people. That kind of comes with the territory, but I am very confident that the work being done by our staff out in the field is credible.

Unfortunately, some of the issues that have been discussed concern preliminary results which have not been reviewed by my staff, nor provided to the Administrator or to some of the key management personnel within the VA. The preliminary disclosure of some tentative results before the final conclusions have been resolved, especially within my office, has been unfortunate.

Mr. MONTGOMERY. Looking at some of your employees—and I really don't have any problems with it—it seems that you moved a number of your key personnel from the Department of Energy over to the Veterans' Administration, from the Department of Transportation to the Veterans' Administration. I don't have any problems with it, but what did you do to the Department of Transportation if you took all the key people out of there?

Mr. SATO. Sir, to date I have brought 16 employees from the Department of Transportation, both professional and support personnel, into my office. Six others came from the Department of Defense, 23 from the Department of Energy, 19 from other organizations, and 2 from within the VA.

I personally think that if the office is going to do a good job, it is my responsibility to find the best people I can to fill every job. That is what I have done. I believe the people we have brought in, regardless of grade, regardless of position, are topnotch people and the results that we are starting to get will demonstrate that.

Mr. MONTGOMERY. As I said earlier, I really don't have any problem with that. It is your responsibility and I am sure there is a tendency to move your own people with you.

There have been some complaints, that some of the investigation that has been done has actually delayed some of these projects on construction and it is going to cost the VA more money now because of your investigations and what the investigation might have saved because of the increase in materials and delay in the project.

Do you have any comments on that?

Mr. SATO. Yes, sir. In fact, I believe that any allegation of that nature would be totally false.

As you know, Mr. Chairman, the results of the work of my staff are strictly advisory in nature. The managers may accept them or not accept them. We have a resolution process that can take the issues all the way up to the Deputy Administrator, who is the resolution official for the Administrator.

So, first of all, my staff does not direct anything. We do make recommendations; those are advisory recommendations to be followed or not, depending upon the manager's decision. So I don't think that any delays which have been made can be attributed solely to our work. We have commented on cases when we felt that a particular project was neither justified nor needed. We have a number of cases where management has agreed with us and the projects have either been canceled or deferred, but in all instances, I think they were in the best interests of the American taxpayers.

Mr. MONTGOMERY. Before yielding to Mr. Hall, let me point up a case in point in Minneapolis, where the reevaluation was successfully made and delayed starting construction. It will now cost the American taxpayers—as you mentioned, it will protect them—but it will now cost them an additional $60 million.

Mr. SATO. I am not sure how to answer that question, Mr. Chairman. I believe that any delays in the Minneapolis project certainly were not the direct result of any work done by my office. We have reviewed that project very briefly, and our memorandum report to the Administrator is pending. In fact, after we complete the hearing, that is one of the issues I want to look into.

From an overall viewpoint, we are concerned with the tremendous increases in costs of the various projects. This is one of the reasons why we believe it is incumbent upon us to review selected projects which are on the drawing boards and coming down the line.

Mr. MONTGOMERY. Mr. Hall of Texas.

Mr. HALL. I notice in your statement on page 4,

> We are currently conducting a match of compensation and pension payments against a national file of deceased persons. Preliminary results indicate that a number of payments are going to deceased persons.

What is the procedure that gets back to the disbursing office on checks that are issued, as to whether or not a person is deceased? How do you first get notice that someone is dead to whom you are paying benefits?

Mr. SATO. Well, sir, let me clarify one point on that. Of course, this process is performed within our Department of Veterans' Benefits. As I understand the process—and perhaps when Mr. Hagen appears before you later he can amplify on it—but basically, when a person dies whether the individual is a VA or social security beneficiary, the offices are notified of the death and actions are taken to suspend or terminate benefits payments.

In this review, realizing that the population is aging and that we didn't see any direct controls on how we might disclose deceased individuals, we checked our own system and recognized what some of my colleagues in the Department of Health and Human Services have found in similar matches. Last year we initiated a match in

this area. We have had some difficulty in scrubbing the data down to a level which we felt was reasonable, and which the DVB staff could reasonably pursue—and we have been working very closely with the DVB personnel. We pursued this whole project and have a number of concerns in the area. We released our report to the Department of Veterans' Benefits last week, and I am hesitant to discuss any specific details at this time simply because our report is in draft form. It is available to management for their comments. There may be errors in our system. This is the normal process we follow to screen out possible errors or to include anything that might have been overlooked. We hope to have the report in final form within the next 3 weeks.

Mr. HALL. Well, that's all well and good, but you haven't answered my question.

How long does it take you to get notification that someone is dead, and how do you get it?

Mr. SATO. That is a normal process. I don't know how long it takes.

Mr. HALL. Well, how much money—and I'm looking at your testimony—how much money is represented by past payments that have been made to deceased, a rough estimate?

Mr. SATO. Our rough estimate that we have right now—and I want to preface my comment because it is a tentative figure and subject to change—we are talking around $100 million, potentially.

Mr. HALL. A hundred million dollars. And how long has that been going on? How would you go back and try to list that in areas of—is some of it 3 years old, 4 years old, or 1 year old? How old would that account be? What would it represent in time?

Mr. SATO. It varies. We have some in the sample, and I have to stress that in the jargon used by our computer matching people, these are raw hits. We have scrubbed the data as best we can. Some of them are several years old. Some of them are fairly recent. We are now at a stage where we are recommending that the agency institute certain confirmation procedures to follow up on the specific listing of names which we have identified through our computer matching process. This confirmation should verify that, in fact, all of these recipients are deceased and that any payments which have been made should have been terminated.

Mr. HALL. If you are trying to age those accounts, would some of that $100 million be as old as 6, 7, or 10 years old, or older?

Mr. OAKLEY. Excuse me. Quite possibly some of them might be. We took our sample at the point of October 1981, and we compared payments from October 1981 back to date of death. Now, this is a long computer listing of individuals. We don't have an individual printout on each one of those. It could be done. On a very random basis, we looked at some payments, just a scattering of the total number of people who were deceased and still being issued payments. Some of the payments could have been that old.

To keep it in perspective though, by far the greatest majority of payments are stopped within a very short period and payments are not continued. It is only on a relatively few of them, compared to the total population, that we found payments were continuing, and on those the timeframe could have been as long as a period of several years to a few months.

Mr. HALL. Do you find in your referencing that you're mentioning that there are people who have been paid that have been dead for more than 2 or 3 years, a continuation of those payments?

Mr. OAKLEY. Yes, there could have been some of those. But again, we haven't printed out the complete list of all individuals. We have that on computer tape, but we're not——

Mr. HALL. Where did you get that list on computer tape that these people are dead? How do you normally receive that?

Mr. OAKLEY. It was a list, a comparison of payments made from the compensation and pension files, comparing that date on October 1981, to the date of death. So if, according to the social security tape or the file of deceased persons, an individual died 3 years ago, we compute the payments that were made in the interim 3-year period between the date of death 3 years ago and October 1981.

Mr. SATO. I might add that we have compared a national file of deceased persons, maintained by a Washington area contractor with whom we contracted. In addition to their file, we also received data from the Department of Health and Human Services and from several States. We compared the VA compensation and pension payments against those lists of deceased persons.

Mr. HALL. You mean the VA has contracted out with a firm that does nothing but compile people who have died, and they make that available to you for you to check against your records?

Mr. SATO. Yes, that is exactly what we did.

Mr. HALL. Is that, on a contractual basis? Is it a 1-year, a 3-year term or what?

Mr. SATO. Oh, no. It was just a one-time effort in which we contracted for access to that data. That was the most complete file of deceased individuals of which we were aware.

Mr. HALL. How much did we pay for that contractual service?

Mr. SATO. I believe it was about $10,000.

Mr. HALL. I think you stated, Mr. Sato, that you compared back with social security payments that are likewise made to individuals, I suppose to see if they have discontinued their payments?

Mr. SATO. Yes. Let me clarify that point. The Office of the Inspector General in HHS has conducted a similar match. They found some 8,300 names of deceased persons who continued to be issued payments. During the followup process, by knocking on doors they found some of the recipients who said they had notified the Government, but the checks kept coming. They actually had the uncashed checks.

These checks were turned over to the HHS investigators and, as I understand it, in certain cases the recipients said "Incidentally, what do you want me to do with these VA checks that we have been getting also?" So, my staff has closely coordinated this project with the HHS Inspector General. We are familiar with what they have done. We have also compared their listing of 8,300 names against our compensation and pension files in the VA as another check. We have also compared certain death records which are mechanized by certain States—Florida, New York, Illinois, and California, as I recall.

Mr. HALL. Let me ask you this in conclusion:

Is there any service that is offered by the States where death certificates are filed, that the Veterans' Administration could sub-

scribe to and get a list of all the people that died in a particular county? It covers an awful lot of territory, but would the cost justify the information you might receive to try to cut back on that $100 million that is evidently a rather constant figure?

Mr. SATO. In my judgment, currently that data is not readily identifiable.

Mr. HALL. Do you work with your veterans officers in these counties or districts, in order for them to make a list of the veterans who have died and mail that do you? There ought to be some way for the Veterans' Administration to have information within a reasonable period of time that a recipient is dead.

Mr. SATO. Yes, sir. We are working on that issue. I have made two suggestions. First of all, we have a group called the National Intergovernmental Audit Forum, which is sponsored by the joint financial management improvement program, and has as its principals the Director of the Office of Management and Budget, the Secretary of the Treasury, the Comptroller General, and the Director, Office of Personnel Management.

Under that group, which brings together the audit groups from the Federal, State, and local levels, I have recommended a project wherein we work together and compile a national file of deceased individuals. The Forum has accepted that recommendation and they, in turn, have asked me to spearhead the project, in which we are involved right now.

Concurrently, the President's Council on Integrity and Efficiency just yesterday asked me to follow up on that from the Federal level and to also work toward compiling such a list. Once we have the list we would turn it over to some Federal department to maintain for availability and access by any Federal department or agency or any State and local——

Mr. HALL. That's good. I don't want to interrupt but I have gone beyond my time. I thank the chairman for the indulgence.

I would appreciate your following up on that.

Mr. SATO. Yes, sir.

Mr. MONTGOMERY. I appreciate, Mr. Hall, your getting this on the record and getting it in detail.

Mr. Mica.

Mr. MICA. Thank you, Mr. Chairman. I might ask one followup question on what Mr. Hall raised.

You indicated this $100 million was the result of a sampling. Is this a total figure, or is there the possibility that it could be much higher? How did you come to the $100 million figure?

Mr. SATO. The computation was derived by matching the file of deceased individuals with the compensation and pension files—

Mr. MICA. The entire file?

Mr. SATO. Yes, sir. When we had what we call raw hits or matches between those two records, we further scrubbed the data—the specific data elements—to assure ourselves that the matches are reasonable indications of some problem areas. Once we arrived at that list, we took the date of death to the October 1981 cutoff date and made a computation extension of those amounts to arrive at that figure.

Mr. OAKLEY. If I could add a comment on that, the final number could be substantially different than the $100 million, because the

final verification of this will entail contacting individuals who are receiving the checks. Ours has been a computer match process and final verification is going to entail talking to somebody. The files we used could have some inaccuracies in them, so the number could be less than $100 million. Again, the committee might keep in mind that we are talking to the veteran community and it would be well to verify our number before the——

Mr. MICA. Let me ask you this——

Mr. SATO. Excuse me. On that point, I might add this is one reason why you might say I am hesitant about discussing some of the details until we have had the draft report fully discussed with the VA program people.

As an example, in our initial match effort, one of the things that really surprised me was that we were taking names and social security numbers as an example for comparison, and we found that in certain cases spouses and dependents have used the same social security number as the husband and father. So sometimes when you get death matches which are indicated by social security number and perhaps a last name, it doesn't necessarily prove to be a match. These are the kinds of things we have to scrub out of the system and we are at a stage where——

Mr. MICA. Excuse me. Spouses and children have the exact same social security number?

Mr. SATO. Yes, sir.

Mr. OAKLEY. They are using the same number.

Mr. SATO. They are using the same number.

Mr. MICA. Well, if they are using the same number, then it should scrub out, because that would be illegal to use the same number.

Mr. SATO. Yes, sir.

Mr. MICA. Let me just ask this, then. You said you identified nearly 66,000 employed Federal personnel who could owe over $37 million in debts to the Federal Government. What happened to those 66,000?

Mr. SATO. There has been a continuing effort to collect those funds. I might add that the latest figure that I have is that the 66,000 has been reduced to 27,570, and the dollar amount is about $16.6 million.

Further, when I first came into the VA about a year ago, we did receive some inquiries from a couple of the Cabinet Secretaries for a specific listing of names of employees in their respective departments. At that time, it was my understanding the legal determination was that those names could not be disclosed because of privacy considerations. We have since crossed that hurdle and are now in the process of sending out listings of those names to the 64 departments and agencies involved. We anticipate receiving further help from the agency heads in collecting or resolving the outstanding indebtedness.

Mr. MICA. One other point that comes to mind.

I notice you identify 66,000 Federal employees, and I think, be they Federal or non-Federal, they ought to pay their debt. However, how many non-Federal could you identify and have you had any ability to get funds back from that area?

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Mr. SATO. We have not covered that area simply because of the mechanics of not being able to do it. For the initial match with 66,000 employees, we used the OPM record of Federal employees. This gave us the initial match results.

We are now involved in a much broader match which will include not only the OPM records, but the Army, Navy, Air Force, Coast Guard personnel, including Active, Retired, and Reserve, and the intelligence activities—the CIA, NSA, DIA, and so forth—and it will be a more encompassing match.

We have not made any specific plans as yet, but it is my understanding that some of the major companies are interested in providing us similar access as necessary. We have not been able to really attack that problem because, as you know, we would have to get employment records from many, many companies to go to the private sector or the nonFederal employment sector.

Mr. MICA. In closing, let me just ask this.

Do you have a total figure—you mentioned $100 million in this one area, $37 million in debts. Do you have a total figure that you estimate in the VA budget that you so far have come up with that has been lost through fraud, abuse, and mispayment, et cetera?

Mr. SATO. No, sir, and I wouldn't even begin to hazard a guess. I don't think that it's really possible.

Mr. MICA. I thank the chairman.

I might say that I think our colleague, Mr. Hall, raised some very important questions.

Mr. MONTGOMERY. Thank you, and I think maybe our next witness could answer your last question there, Mr. Mica.

Thank you, Mr. Sato, you and your colleagues. We will look forward to hearing from you again.

Without objection, General Counsel has some questions that he will submit to you and we would like for you to submit them back with the answers for our record.[1]

Thank you very much.

Mr. SATO. Thank you, sir.

Mr. MONTGOMERY. Our next witness will be a friend of ours, Mr. John Pressly, Jr., who is Associate Deputy Counsel for the Veterans' Administration.

His background, for the record, John obtained his education in South Carolina and Virginia and is a member of the Virginia bar. He worked on the staff of Senator Strom Thurmond. He is a friend of ours. He served several years as counsel for the Senate Committee on Veterans' Affairs before going to the General Counsel office of the Veterans' Administration. He is an attorney and a good one. We are very glad to have John here today.

He had a lot to do, Mr. Mica, with the drafting of legislation pertaining to debt collection activities of the VA, and he is familiar with the subject of debt collections. I would like to welcome him, and he can introduce the other two gentlemen with him.

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[1] See p. 35.

STATEMENT OF JOHN L. PRESSLY, ASSOCIATE DEPUTY GENERAL COUNSEL, ACCOMPANIED BY JACK SHARKEY, DEPUTY ASSISTANT ADMINISTRATOR FOR DATA MANAGEMENT AND TELECOMMUNICATIONS; AND JOHN HAGAN, DEPUTY CHIEF BENEFITS DIRECTOR, VETERANS' ADMINISTRATION

Mr. PRESSLY. Thank you, Mr. Chairman. You were kind in your introduction, it is always a pleasure to be here among friends. This is my first time appearing as a witness and it does look different from the other side of the table.

With me today is Mr. Jack Sharkey, Deputy Assistant Administrator for Data Management and Telecommunications, on my left; and, on my right is Mr. John Hagan, Deputy Chief Benefits Director.

I would like to summarize my statement and hit the high points——

Mr. MONTGOMERY. Without objection, the full statement will be put in the record.[1] We appreciate your summarizing. We are going in session at 10 a.m. to try and come up with some type of budget, so I appreciate your consideration.

Mr. PRESSLY. Thank you, sir.

As you know, Mr. Chairman, the President, the Administrator of Veterans' Affairs, the Congress, and many others in and out of Government are seriously concerned with the large number of debts owed the Federal Government. The bulk of this debt has resulted from participation in VA education benefit programs.

To give you a picture of the overall VA indebtedness as of March 31, 1982, the agency maintained 623,792 accounts for $617,056,000 in active collection at its centralized accounts receivable system [CARS] in St. Paul, Minn. We also have temporarily suspended active collection action on another 857,000 accounts for $280 million which are recorded in our master record system at Hines, Ill. Accounts in these two systems, active and inactive, represent 1.4 million veterans who are indebted to this agency for approximately $1 billion.

Debt collection and prevention is high on the list of priorities at the VA. Public Law 96-466 provided several very useful tools in the collection area and provided a statutory base upon which the agency can address the issue of VA indebtedness. Additionally, OMB Circular 81-17 requested each agency and department to establish debt collection officials and expressed the President's concern for a governmentwide collection program.

I have been designated by Administrator Nimmo as the agency debt collection official, and have been charged with the responsibility of identifying and coordinating the resolution of issues relating to debt collection. In this regard, I would like to discuss how the VA has responded to this charge.

Public Law 96-466 provided authority to the VA to do a variety of things in the area of debt collection. First, offset from current benefits regardless of the statute of limitations; two, assess interest and administrative cost; report delinquent accounts to consumer

[1] The prepared statement of Mr. Pressly appears on p. 29.

reporting agencies; and litigate debts arising from benefit programs.

In the first instance, the VA has the common law right to offset indebtedness against current benefits. This recovery of moneys improperly disbursed is recovered in a quasi-contractual suit for unjust enrichment. Additionally, the Federal Claims Collection Act requires the Administrator to seek recovery of debts owed the agency.

With the enactment of Public Law 96-466, the VA now has its own statutory authority to offset benefits for debts owed. Proposed implementing regulations were published in the Federal Register on December 23, 1981, and will be finalized in the next few months. We are currently offsetting benefits under existing law.

Final regulations implementing the charging of interest and administrative costs of collection were published in the Federal Register on December 22, 1981. The necessary functional and technical specifications are being developed to complete this effort, and the project is on schedule and a completion date of November 1982 is anticipated. This will be for education accounts. As far as the compensation and pension accounts, interest charged and administrative costs will occur around September or October of 1983.

Public Law 96-466 directed the VA to conduct a litigation program, and this is going very well. At the present time 120,952 accounts, totaling $74 million, are pending in the various district counsel offices. Of the 174,000 total accounts referred to the district counsel, 41,000 accounts, or $27 million, have been disposed of either by payment in full, waiver, compromise, or in some cases termination. Also, 24,211 complaint for $15 million have been filed and judgments taken on 10,000 accounts for $6 million.

In November 1981, Administrator Nimmo allocated additional staffing for the district counsel program. Currently, this program has 164 FTEE devoted to debt collection. This additional staff has eased backlogs and improved our ability to collect.

It was not until February 1981, that all district counsel personnel had been trained in debt collection. Cash collections for fiscal year 1981 totaled $2.1 million. Cash collections for the first two quarters of fiscal year 1982 were approximately $3.5 million.

Reporting delinquent debtors to consumer reporting agencies was authorized by Public Law 96-466. A request for information was published in the Commerce Business Daily on July 21, 1981, and nine CRA's responded. We considered their responses and have requested additional information concerning a variety of issues, including their computer capacity and ability to utilize VA data.

Following the receipt of this information from the CRA's interested in assisting the VA in collection, a request for proposal will be issued. This will include the writing of functional and technical specifications and the contracting with at least five CRA's in order to obtain nationwide coverage.

Mr. Chairman, as I mentioned earlier, active collection action on a large number of accounts was suspended prior to Public Law 96-466. Approximately 800,000 suspended accounts exist in the master record at Hines, Ill. On May 10 of this year, 654,000 of these accounts, education accounts, were reactivated and placed on the CARS master record. In July of this year, 120,000 additional ac-

counts, the compensation and pension accounts that were suspended, will be added to this CARS registry, totaling over 1.4 million accounts. During the following few months, these CARS accounts will have their addresses updated through the Internal Revenue Service and in November of this year each individual will be notified of the agency's intent to charge interest and administrative costs.

As a result of this authority to offset, we have greatly reduced the number of accounts placed in a terminated status. Also, with the reactivation of the previously suspended accounts, the number and amount of debts owed the VA will rise sharply. This situation is compounded by the declining enrollment in educational programs which heretofore gave us a method by which we could offset an indebtedness from current benefits.

Before I move into other areas of debt collection and prevention, I believe it would be appropriate to discuss the CARS unit within the St. Paul regional office and insurance center which is the focal point for debt collection activity. Most accounts receivable established in the Hines master record after January 1975, are under the jurisdiction of CARS. The only exceptions are the active records with overpayments, education loans, death cases, and loan guaranty debts where the veteran has benefits available for offset. While Hines retains accountability for the accounts, CARS maintains a record until collection or disposition is effected.

CARS is responsible for replying to all correspondence received from the veteran after the receivable is established. Recently, this amounted to an average of 76,000 pieces of mail per month. With the reactivation of the suspended accounts, this volume is estimated to increase to 186,000 pieces of mail per month.

Mr. Chairman, at this time I would like to bring to your attention our reimbursement program for the cost of medical care furnished to injured veterans in those situations where the care is provided for a job-related injury or where some third party has caused harm or injury.

Under the Federal Medical Care Recovery Act, the United States has the right to recover the reasonable value of health care and services furnished veterans "under circumstances creating a tort liability upon some third person." Under this act, the United States has an independent right of recovery and is also subrogated to the veteran's right or claim against the negligent third party.

Thus, the Federal Medical Care Recovery Act authorizes recoveries only when the occasion for care arises out of the act of a tortiously liable third party. Until the passage of Public Law 97-72 in 1981, the VA did not have a specific statutory basis to pursue collections for injuries when no tort liability need be shown, such as under workers' compensation, automobile no-fault accident insurance, or a State's crime-victims compensation program. Rather, such collection efforts were pursued under various State laws. Our collection efforts were further hampered by various adverse court decisions and State statutes that provided payment to private health care providers but excluded payment to Federal health care providers.

To overcome these obstacles and to provide for uniformity in recovery procedures in all States, section 106 of Public Law 97-72

was enacted. Specifically, this law provided a statutory basis to pursue collections for the veteran's care for a non-service-connected disability from workers' compensation carriers, automobile no fault insurers, and States that pay for the cost of health care provided to victims of crimes.

In fiscal year 1981, the VA recovered $8,791,000 in hospital costs. Approximately one-half of this sum was the result of our recoveries for work-related injuries or illnesses. However, since the provision of Public Law 97-72 did not take effect until May 3, 1982, we do not have any monetary figures that would indicate the impact of this new law on our recovery program. We are optimistic that our next annual statistics will show a favorable increase.

The collection of debts owed the Federal Government also applies to employees of this agency. In the suit *AFGE* v. *Nimmo,* a class action suit against the VA seeking to enjoin further implementation of the VA's efforts to recover the cost of medical care furnished some 465 VA employees, this was filed on January 15, 1982, in Federal district court in Alexandria, Va. The action was brought by the AFGE and four named plaintiffs on behalf of the class of present and former employees of the Federal Government who are veterans and who had been notified by the VA that they were ineligible for past and continuing medical care at the VA facilities for non-service-connected disabilities. The class also purported to include all Federal employees who are veterans and who may be deterred by the VA's actions and programs from requesting and receiving VA assistance prior to a determination of their eligibility.

The 465 VA employees being billed were identified in an audit conducted by the Inspector General. The audit focused on the use of VA health care benefits in fiscal year 1978 by non-service-connected veterans employed by the VA, whose eligibility for medical care was based on an asserted inability to pay for the care in the private sector.

These employees earned more than the average family and would have spent proportionately less of their incomes for health care than the average family. In light of that information as derived by the Inspector General, and particularly based on the finding that each employee had Government-sponsored health insurance, the IG concluded that these employees, all of whom had obtained VA hospital care, should be billed for the VA care. The Administrator concurred in the IG's conclusions.

On April 15, the district court which heard *AFGE* v. *Nimmo* issued its order granting the VA's motion for summary judgment. The court, in that opinion, reviewed in detail the VA's employee medical care cost recovery program and held that the program had a sound legal basis and does not violate the constitutional and statutory provisions raised by the plaintiffs.

The court cited with approval the *Shanks* decision, agreeing with the VA's position that the VA has the common law right to recover the costs of medical care provided to non-service-connected veterans. The court also found support for this right in the Federal Claims Collection Act and in the VA's own regulations. In rejecting the AFGE arguments, the court held: (1) that the combination of the VA's preliminary billing criteria and the criteria for waiver produced a rational definition of the inability to defray standard;

(2) that the VA's billing determinations were not arbitrary and capricious; (3) that the VA's retroactive recovery program was valid because the VA's appeals process allows the VA to take any prejudice or hardship of individuals into account; and (4), that the constitutional right to equal protection was not denied to veterans.

The court also found that the Federal Government has a right to place a higher standard of conduct on its own employees than on other persons. Furthermore, the court noted that billing VA employees may be merely the first step in a larger program to recover medical treatment costs from all ineligible veterans. Accordingly, it found that singling out employees at this time for billing is not a prohibited classification under the equal protection clause.

The VA is processing each request for waiver by these employees, or the appeal from billing, on an individual, case-by-case basis in accordance with existing VA regulations and procedures. We are concerned that blanket waivers of indebtedness, as was suggested by the court, may be inconsistent with the law empowering the Administrator to waive indebtedness. Section 3102 of title 38, United States Code, authorizes the Administrator to grant waivers. We are continuing to review this issue in light of the comments by the court to insure that inequitable treatment does not occur.

Mr. Chairman, I believe that debt prevention is as equally important as the collection of delinquent debts. The agency has embarked upon several prevention measures, and I would like to briefly outline them at this time.

First, check intercept procedures have been initiated for stopping checks at post offices where overpayments have been discovered after the check has been issued.

Second, priority is being given to the processing of death notices where there may be a potential for an overpayment.

Third, increased enforced collection action in the area of school liability cases has been instituted. However, many of these schools are almost judgment-proof when they reach the VA and Department of Justice for litigation.

Fourth, we are attempting to devise a procedure to closely monitor those schools with veterans who experience high incidents of overpayments in an effort to discover problem areas as soon as possible.

Fifth, consideration is being given to requiring monthly certification of attendance by those veterans enrolled in non-college-degree courses.

Sixth, instructions have been transmitted to each regional Office stating that before an award is made for benefits, the veteran's file will be checked to determine if any indebtedness is owed. If so, action will be taken to offset that award by the indebtedness.

Seventh, financial institutions with the authority to automatically approve VA guaranteed home loans will now be required to contact the local VA regional office to determine if the veteran has an outstanding debt before the home loan can be approved.

Mr. Chairman, I believe the debt collection program at the VA is cost efficient and is responsive to the intent of Public Law 96–466. Also, I believe we are taking positive long-term measures which will enable us to collect and prevent overpayments in various benefit programs.

During fiscal year 1981, $5.16 in cash was collected for every dollar spent on VA debt collection. This calculation considers the costs of 356 FTEE for General Counsel, the Office of Data Management and Telecommunications, Budget and Finance, Department of Veterans Benefits, which includes the CARS and regional offices. For fiscal year 1982, 535 FTEE have been identified with the VA debt collection effort and 614 have been requested for fiscal year 1983.

Mr. Chairman, this concludes my statement. I will be pleased to respond to any questions at this time.

Mr. MICA [presiding]. Thank you, Mr. Pressly.

Before I continue, let the Chair advise that we have had a request from Mr. Hillis to submit written questions for the record,[1] and also a written statement.[2] Without objection, so ordered.

Mr. MICA. I might just ask overall, can you tell me the total amount of money that is spent on veterans' benefits and the number of veterans receiving benefits?

I might say that I said, for instance, in previous testimony that $100 million was an awful lot of money, and it is, but I would like this complete record to show the perspective on that. Does anyone here have that?

Mr. HAGEN. Yes, sir. It is about $15 billion a year.

Mr. MICA. $15 billion a year.

Now, debt collection, what percentage or how much of the budget is spent on this?

Mr. PRESSLY. Mr. Chairman, the budget for our debt collection program this year is approximately $12 million.

Mr. MICA. Can you give us a figure—you mentioned in one area you found $80 million was recovered. But with a $12-million expenditure out of a $15-billion budget for payments, about how much you have been able to recover or identify as recoverable?

Mr. PRESSLY. Mr. Chairman, we have the authority to offset future benefits for debts owed, therefore, we consider the vast majority of our debts as collectable.

Mr. MICA. I would assume that the collection efforts are more than paying for themselves just in that one area, where you mentioned the $80 million.

Mr. PRESSLY. Yes, sir. The collection effort is more than paying for itself—as I mentioned, $5.16 for each dollar that is spent in the collection program.

Mr. MICA. That is $70 million that you have recovered?

Mr. PRESSLY. We have recovered $80 million in cash for fiscal year 1981. There are a number of offsets that occur. I think we offset approximately $350 to $400 million. An offset is a transaction, more or less, where the individual comes in for benefits and it is determined that he owes us money from previous participation in a program. We advise him appropriately and then we offset. For example, his educational benefits are offset for a previous debt when he re-enrolls.

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[1] See p. 38.
[2] See p. 34.

The vast majority of our collections come from offsets. A very small amount comes from cash collections.

I don't know if that answers your question but it adds a perspective.

Mr. MICA. It does.

Again for the record I just want to spell out my purpose.

I am concerned, and my colleagues were extremely concerned, to hear these $100 million figures, $37 million and so on. I can see where if this were taken out of context it could indicate that the Veterans' Administration and/or your organization is not doing an appropriate job, the point being that the record now shows that we are paying $15 billion in benefits, and yet the efforts are only costing $12 million to recover and so far have recovered, as you indicated, over $84 million in cash——

Mr. PRESSLY. In cash.

Mr. MICA [continuing]. In cash or offsets.

Mr. PRESSLY. No, sir, just in cash. Offsets would be approximately $350 to $400 million.

Mr. MICA. I think that puts it in perspective, and it doesn't lessen my concern or, I am sure, my colleagues' concern over the funds that are being misdirected or fraudulently used and so on. But I do want the record to show that there is a solid, legitimate effort being put forth and that, in perspective, these figures are not as great a part of the budget as you might think if you read the figure alone.

Also, let me just ask you personally, each of you, or you, Mr. Pressly, do you have a specific area where you think a method is the best way that we should be zeroing in on collection of benefits, other than cooperation from the postal officials and so on? Is there one specific approach or one or two that you feel have been the most helpful?

Mr. PRESSLY. Mr. Mica, I think we can look at it in two situations—and this is the way I have attempted to look at it. You ask the question what causes the overpayment, and secondly, how do you collect it?

We are bound by statutory provisions in title 38 for the benefit programs. So, overpayments will occur as experience demonstrates. You will have to change the law in some of these areas to prevent overpayments. As far as collections, there is a certain amount that an individual can do, either in the private sector or here in the VA, to collect money. You can put as many people as you like into the project, but when the veteran is unemployed or when he is just not going to pay, then you have few options. You take the debtor to court and obtain a judgment, the enforcement of that judgment is awfully difficult, especially if the veteran is on the lower end of the economic scale.

So those two areas are the ones that I like to look at. I do not have any one or two remedies to cure the entire problem because the VA is a very big system.

Mr. MICA. Can you comment on the ability of postal officials, or postmen, particularly, to assist in these efforts? Would the privacy law dictate that they not make a report that they believe a check is going to someone who is already deceased or, indeed, are they encouraged to—What is the status on that?

Mr. PRESSLY. The privacy law would not affect that situation.

Mr. MICA. There is no prohibition?

Mr. PRESSLY. No, sir. Mr. Hagan would you like to comment?

Mr. MICA. Is there any incentive? Are they given a bonus or anything if they——

Mr. PRESSLY. I do not know about the bonus. Mr. Hagan could answer this as far as how this process actually works in the regional offices.

Mr. HAGAN. We are very fortunate in the cooperation that the post office does give us, and in a number of instances the postman on the route is the first one to inform us that a check was not delivered because the person was deceased. Without them, we would be in real serious trouble.

Mr. MICA. Thank you.

At this time counsel and staff have some questions they would like to ask for the record.

Mr. MCDONELL. Mr. Pressly, in November 1981, the GAO report on fraud in Government programs indicated that the majority of incidences of fraud in the VA occurs in the loan guaranty program and that in half of these cases no action is taken by the VA.

Would you please explain under what circumstances the decision would be made not to pursue action to collect these funds?

Mr. PRESSLY. Mr. McDonell, the loan guaranty cases where there has been criminal fraud or civil fraud are handled through the regional office, specifically, the loan guaranty officials, with the district counsel, with the ultimate determination to prosecute made by the Department of Justice through their U.S. attorneys offices at various locations.

I think that is what the report, if I am reading you right, is about. Where there has been some indication of criminal or civil fraud, the loan guaranty official, I would hope in every instance, would contact the district counsel who in turn would go to the U.S. attorney's office to report.

Now, the decision as to whether to bring these people to court and get an indictment is another issue which the U.S. attorney will handle. It is really out of our hands more or less. As you mentioned, many of these cases are not pursued by the U.S. attorneys.

As an aside, when you talk about fraud, the fact that the veteran does not occupy his residence within the required 90 days is a fraudulent act, or where the veteran buys a house that maybe his son or daughter will occupy is a fraudulent act. Yet, the loan is current in these cases. I think we would be hard pressed, or the U.S. Attorney would be hard pressed, to seek criminal action against these people when the VA has not lost any money and the loan is current.

To answer your question, we have the Department of Justice involved to a great extent and it is not an insulated system.

I can look into that issue further and amplify my response, if you would like.

Mr. MCDONELL. I think that answers the question. Thank you very much.

My next question. We have been informed that your DVB regional office people have been told to check a file for an overpayment

before awarding benefits. Do you have computer checks to assist them in this?

Mr. PRESSLY. If I could, I would ask Mr. Hagan to respond to that.

Mr. HAGAN. Yes, we do have computer checks. The application is received for benefits, and before payment is made, we call up all of our systems, C.P. & E. and loans, to determine whether or not there is an outstanding indebtedness. If there is, we would withhold payment to the individual.

Mr. MCDONELL. Is TARGET also a part of that computer system?

Mr. HAGEN. Yes, TARGET is part of it. That is the basis for our C.P. & E. system.

Mr. MCDONELL. As a followon, what is the status of your actions to update the BIRLS records and procedures to keep them current?

Mr. HAGAN. We are in the process of updating the BIRLS records. Right now we are using mainly two procedures. At the regional office level, whenever any additional evidence concerning the person's service is received, the regional office employee handling that material calls up the screen and fills in any missing information.

At the records processing center in St. Louis, whenever a folder is pulled, we bring up BIRLS again and determine if there is any additional information that we can use to update the BIRLS records.

In 1983 we hope to have a program developed where we will be able to update for the information that is in BIRLS. But those are about the three things we are doing at this time.

Mr. MCDONELL. Are your regional offices assisting hospital directors in developing methods to determine veterans' eligibility—and I'm thinking of BIRLS?

Mr. HAGAN. Yes. The regional offices have worked very closely with the hospital directors and their admission services, in that they have furnished telephone numbers to call into the regional office when they have an emergency situation, where they need information immediately.

Now, this would mean that the regional office would go into the Target system into BIRLS. But the hospitals also have what we call the advanced records system that they can use, and this is more or less a teletype system. They can go right into BIRLS through their teletype for what we call a fast response and they can get information that way.

At present, we are conducting a TARGET computer experiment, or cost benefit analysis, with the Washington regional office, where they do have a terminal that will go right into BIRLS. We are going to be expanding that in the near future. We have the equipment onsite and——

Mr. MCDONELL. May I interrupt you just a second?

You said the Washington regional office. You mean the——

Mr. HAGAN. I meant the Washington hospital—I guess I should say the VA Medical Center instead of the hospital. I'm an old-timer.

But we have been conducting this effort at the VA Medical Center here in Washington, and we are in the process of expanding it to Bay Pines, Hines, and also Portland.

Mr. McDONELL. Thank you.

Mr. Sharkey, if I might ask you to respond to what was just said, to your knowledge is there planning going on with the Central Office to provide terminals to the VAMC's?

Mr. SHARKEY. Yes, as John just said, we have had the pilot going for approximately 2 years, at the Washington VAMC. We now have additional equipment, at Bay Pines, Hines, and Portland hospitals for further evaluation.

In the redesign of BIRLS, which is going on now, we are looking at those data elements that will further help in eligibility determinations for hospital care. So, yes, we are proceeding forward.

Mr. McDONELL. Will this interface with the decentralized system that we have been hearing about at DM&S?

Mr. SHARKEY. Not really, no. These terminals will be hooking right directly into the TARGET network.

Mr. McDONELL. I would like to ask you, Mr. Sharkey, if I may: Are there any plans in the Central Office that you are aware of to change the status of the data processing center at St. Paul?

Mr. SHARKEY. Not to my knowledge, sir. We have determined that the mission of the St. Paul data processing center is the debt collection mission for the agency, and we have staffed it appropriately. We have replaced the computer equipment in St. Paul with new equipment to handle the program. I can say that that's its mission as far as I can see in the future.

Mr. McDONELL. Do you and your office have any additional plans to further enhance the ADP capabilities in St. Paul?

Mr. SHARKEY. Well, we have all the capability we need today to meet the debt collection mission, with the recognition that it is upgradable in the event we need more capacity. That was the purpose for the kind of equipment we put up there—so that we can upgrade it. But I do not see putting other missions in St. Paul at this point in time.

Mr. McDONELL. Is it correct to assume that the new equipment that you installed in St. Paul is capable of the additional workload of bringing back that inactive file?

Mr. SHARKEY. We have already loaded the majority of those records and there is more to come. As I say, the equipment—we have there is the IBM 4300 series Mod-1 up there, and it can be easily upgraded to Mod-2 if at such time we recognize that we need more capacity.

Mr. McDONELL. Mr. Chairman, that completes my line of questioning. I would like to defer to Mr. Stover, counsel for the Subcommittee on Education, Training, and Employment for some questions in his jurisdiction.

Mr. MICA. The Chair recognizes Mr. Stover, and I might add that Mr. Wilson also has some questions.

Mr. STOVER. Thank you, Mr. Chairman.

The legislation which led to Public Law 96-466 came out of the Education, Training, and Employment Subcommittee. We were led to believe at that time most of the indebtedness owed to the VA is educational overpayments. They have been running at the rate of half-a-billion a year for about 7 or 8 years.

Is this still true, that the great majority of the indebtedness that you are trying to recover is educational overpayments?

Mr. PRESSLY. Yes, sir; that is correct.

Mr. STOVER. They are still running about $400 to $500 million a year?

Mr. PRESSLY. Yes, sir.

Mr. STOVER. And when you say offsets, John, you are referring to a person who is in school, say this year, they quit, and by the time the VA finds out the person has left school they overpay him, and he goes back next year or a year later and the overpayment is offset?

Mr. PRESSLY. Yes, sir.

Mr. STOVER. That's the way most of them are recovered, right?

Mr. PRESSLY. Yes, sir.

Mr. STOVER. Is this also true with reference to compensation or pension payments, that most of them, if they are overpaid, they are still receiving comp and pension and therefore they would be offset against future payments?

Mr. PRESSLY. Yes, sir.

Mr. STOVER. In other words, those are the easy ones to recover. The ones you aren't collecting then, are the people who don't go back to school and you don't have a current name and address. That was the biggest problem, to get a current address from these people who owe money to the VA. There was legislation to authorize the use of IRS income tax returns for locating addresses. I understand that legislation is going forward in the Ways and Means Committee which would obviate all the necessity of going through the agony of suing a veteran for indebtedness, if we could just have the name and address of the veteran who files a tax return. If the veteran is eligible for a tax refund, just offset the indebtedness against the tax refund. That would be the simplest way in the world to do this.

Are you following that legislation, or is the VA participating in it?

Mr. PRESSLY. Yes, sir; I am following it to some degree.

You mentioned income tax refund offset. That is not a part of the package that is before Ways and Means. Also, you have legislation before Judiciary and the Post Office and Civil Service Committee. But yes, we are following it as it develops, and particularly as far as using IRS addresses.

As I mentioned in my statement, this large number of previously suspended accounts that have been reactivated on the CARS system will be run through the Internal Revenue Service, to obtain the April 15 tax address. When letters go out in November notifying veterans of charging of interest, we will have a good address.

Mr. STOVER. Thanks a lot.

Thank you, Mr. Chairman.

Mr. MICA. Mr. Wilson.

Mr. WILSON. Mr. Pressly, would you please elaborate for the record on the statements made by the Inspector General, with respect to those efforts that are made to collect money back from Federal employees?

Mr. PRESSLY. Mr. Wilson——

Mr. WILSON. Just for the record.

Mr. PRESSLY. Yes, sir; we will.

[The following was subsequently submitted for the record:]

Mr. Sato provided an accurate representation of the historical development of the project which identified 66,000 Federal employees indebted to the VA for $37 million.

As he stated, referral of these employees to their Agency or Department heads was prevented until a "routine use" statement could be published in the Federal Register. This has been completed and the names of these debtors are in the process of being referred to their appropriate Agency or Department heads.

Prior to this referral, the Chief Benefits Director wrote each veterans at their work address encouraging payment or prompt resolution of the debt. In addition, CARS notified these veterans through its regular procedures of notification.

Approximately two thirds of these debtors have come forward and resolved the matter or entered into a repayment agreement. However, I am sure that some of the number remaining are either not employed by the Federal Government or have moved within the system. In any event, these veterans will continue in the referral process from CARS to District Counsels for enforced collection.

Mr. WILSON. You mentioned something about judgments that may have been obtained in the amount of about $6 million. How much money have you actually gotten back?

Mr. PRESSLY. I will have to supply that for the record, Mr. Wilson. As you know, to enforce a judgment it is difficult at times.

[The material referred to follows:]

Post judgment activity is just beginning to be an active part of the District Counsel program. Enforcement of judgments usally occur by placing liens on the debtor's property or garnishment where the law permits. Statistics are maintained in the various District Counsels' offices as to the amount of judgments obtained, however, the actual cash received is recorded at CARS. Unfortunately, cash payments at CARS do not reflect receipts based on judgments.

Mr. WILSON. Are you going to have difficulty adding administrative costs to the amount of the debt?

Mr. PRESSLY. No, sir. The only difficulty we had was to program the computer to do it. It will be a completely automated type of activity.

Mr. WILSON. Is that going to include court costs?

Mr. PRESSLY. Yes, sir; it will be court costs, marshal fees and service of process fees.

Mr. WILSON. Thank you, Mr. Chairman.

Mr. MICA. Thank you.

I might just say that the staff of the Veterans' Committee is a great advocate, both the minority and majority, and we appreciate the questions to help clarify many of the issues. We, as Members, appreciate that.

Also, Mr. Pressly, and the panel, other Members will be asking questions in writing and we would like to leave this understanding with you as we terminate these hearings, that there will be follow-up questions from the staff and Members in writing. We would appreciate your earliest response.

The subcommittee stands adjourned.

[Whereupon, at 10:07 a.m., the subcommittee was adjourned.]

APPENDIX

Prepared Statement of Frank S. Sato, Veterans' Administration Inspector General

Mr. Chairman, members of the subcommittee, I welcome this opportunity to appear before you to review the progress and accomplishments of the Office of Inspector General.

I was appointed Inspector General at the Veterans Administration by President Reagan, after confirmation by the Senate on July 31, 1981. I also served as the first Inspector General of the Department of Transportation from May 1979 to January 1981. Previously, I held key audit positions in the Department of Defense and the Department of the Air Force.

As the Veterans Administration's Inspector General, I am responsible for all audit and investigative activities within the agency as outlined in the Inspector General Act of 1978. The VA's Inspector General's Office was established on January 1, 1978 to consolidate audit, investigation and personnel security operations into a cohesive, independent and objective organization.

To assure independence and objectivity, I report directly to the Administrator of Veterans Affairs. The Inspector General has authority to inquire into all VA programs and activities as well as related activities performed under grants, contracts, or other agreements. These inquiries may be in the form of audits, surveys, investigations, or other appropriate methods. The two primary purposes of these inquiries are: to assist all levels of VA management by identifying and reporting on problem areas, weaknesses or deficiencies in procedures, policies, program implementation or employee conduct; and to recommend appropriate corrective actions.

The operations of the Office of Inspector General neither replace established lines of operating authority nor eliminate the need for VA departments and staff offices to take reasonable measures to protect and enhance the integrity and effectiveness of their operations.

As Inspector General, I am responsible for providing leadership, and coordination for recommending policies designed to promote economy, efficiency and effectiveness in the administration of programs and operations, as well as to detect and prevent fraud, waste and mismanagement. In this regard, I must keep the Administrator and the Congress fully informed about problems and deficiencies in VA programs and operations, and the need for and status of corrective action.

In all of our activities the Administrator has provided strong support of our operations. We have also experienced general acceptance of our recommendations by senior program personnel. Our audit processing procedure requires that recommendations be fully discussed with the program manager responsible for implementing corrective actions. When resolution cannot be reached at that level, the differences are raised to my senior staff for discussion with senior program staff at the VA central office. When resolution cannot be reached at that level, the issue is referred to the Deputy Administrator. We have had only one such referral to the Deputy Administrator since my appointment.

To acquire the knowledge and skills necessary to carry out the functions and duties of the Office of Inspector General, I am authorized to select, appoint and employ staff in accordance with the provisions of title 5, United States Code, and to enter into contracts or other arrangements.

Consistent with existing statutory restrictions and regulations, I am also empowered to request information, records and assistance from Federal, State, and local governmental agencies. When, in my judgment, these requests are unreasonably refused, I must report these circumstances to the Administrator and the Congress.

The basic organizational structure of the Va's Office of Inspector General was created in January 1978. The organization consisted of four offices in central office and four regional offices. A reorganization was approved in February of this year. Cer-

tain activities, scattered between several offices, have been consolidated into a new office of policy, planning and resources in central office.

Audit and investigative capabilities have been enhanced by assigning direct operational responsibilities to the central office and by increasing the number of regional IG offices from four offices to seven. An additional regional office will be added in fiscal year 1983. As a result of the consolidation of administrative functions and increased application of resources to direct operational activities, available resources allocated to performing audits and investigations was increased from 56 percent to 76 percent.

The current workload and staffing assessment indicates a staff of 394 full-time employees are required for optimum functional capability. The total authorized ceiling for the Office of Inspector General for fiscal year 1981 was 349 permanent full-time employees.

For fiscal year 1982, the ceiling was increased by 11 to 360. The approved Office of Inspector General budget for fiscal year 1982 is $14.4 million. The Office's proposed fiscal year 1983 budget of $15.4 million will support the current ceiling of 360 full-time employees and anticipated operating expenses.

Between April 1981 and March 1982, the period covered by the last two semiannual reports to Congress, 129 internal and 336 external audit reports were issued, representing $156 million in costs avoided and $3 million in recoveries. While performing these audits, the planned cyclical coverage of the 172 VA medical centers has been maintained so all locations are covered at least once every 3 years.

Similarly, investigations activities resulted in slightly over $1 million in recoveries, fines and penalties and $13 million in costs avoided. For this period, 53 indictments and 40 convictions were obtained.

I would like to briefly highlight the impact of some of the activities represented by these statistics on construction activities, medical programs other benefits programs and debt management, particularly avoidance of indebtedness to the VA resulting from beneficiary overpayment.

A series of reviews of medical center construction projects disclosed that facility mission statements and workload projections have not been well defined; nor have construction planning techniques led to the most efficient use of the agency's resources.

Our review of eight planned replacement domiciliaries disclosed that nearly $77 million could be saved by renovating existing structures rather than building new facilities. Additionally, our suggested renovation alternatives would provide a greater number of beds. Management concurred with our recommendation to reevaluate planned replacement domiciliaries and to redefine the mission of the domiciliary program.

We have also reported where more efficient use of resources could result in operating economies. Notable, in this regard, is the VA Rehabilitation Engineering Center in New York. Problems reported at that location raised serious concern about the effectiveness of the center's operations which have an annual operating budget of $10 million.

Similarly, we have issued audit reports which have had substantial impact on program economies in the Department of Veterans Benefits. We reported program deficiencies in education program re-enrollment procedures which, if corrected, would result in savings of nearly $16 million. We conducted a series of computer matching projects which identified duplicate payments to veteran beneficiaries. In one computer match, we identified nearly 66,000 employed Federal personnel who could owe the VA debts of $37 million. Another matching project identified 465 VA employees, each earning more than $15,000 annually and having current health insurance policie, who had received free medical care in VA facilities for nonservice-connected conditions.

Our investigative activities were generally targeted at fraud and abuse in both VA medical and benefits programs. A significant number of indictments and convictions resulted from investigations of illegal drug activities at one VA medical center. Other investigations in the medical program area include cases involving the misuse of Government property, embezzlement, contract fraud, conflicts of interest, and false medical research.

Benefits programs investigations included cases involving fraudulent acceptance of payments, false claims, and false documentation in the loan guaranty program; cases involving correspondence school fraud, fraudulent certification to obtain higher education, and conspiracy to defraud in the education program; and a bribery case involving a VA employee in the compensation and pension program. Our joint investigation with the Department of Labor of Federal Employees Compensa-

tion Act irregularities resulted in significant savings to the VA and has triggered a nationwide effort in this area from which additional savings are anticipated.

As a result of our pilot project in the Atlanta region with the Department of Labor (DOL), the VA had total savings of $5.3 million. Additionally, we are working with the DOL on a nationwide project and to date we have achieved cost savings of approximately $2.7 million. The national review is still pending and we anticipate additional significant savings during the remainder of this fiscal year.

Speaking briefly to the Inspector General's role in the agency's debt collection activities, my Office serves as an ad hoc advisor to the VA debt collection official, the associate deputy general counsel. We also are responsible for reviewing the effectiveness of the VA debt collection program. In this regard, we have actively participated in curtailing identifiable outstanding accounts receivable and the accumulation of additional debt owed the VA. In addition to the completed computer match projects I mentioned earlier, we are currently conducting a match of compensation and pension payments against a national file of deceased persons. Preliminary results indicate that a number of payments are going to deceased persons. These payments should be terminated and collection activities initiated to return improper payments already made. The Administrator has targeted debt collection activities as a primary emphasis area in fiscal year 1983. We will continue to work with VA program staff to reduce the level of outstanding debt.

I would like to give a synopsis of ongoing and currently planned activities concerning my Office's oversight role and interagency activities.

The Office of Inspector General has oversight responsibilities of the agency's implementation of OMB Circulars A-76 and A-123. In connection with A-76, "acquiring commercial/industrial products and services needed by the Government," we have not as yet performed any audits of, or suggested cost comparison studies; however, oversight of implementation of OMB's A-76 requirements will be accomplished through post-cost comparison audits as well as management and compliance reviews.

OMB Circular A-123 prescribes policies and standards in establishing and maintaining internal controls. I serve as an ex-officio member of the agency's internal control committee which is headed by the Deputy Administrator. As an initial step, my Office conducted a review of all major VA programs and activities, applying A-123 criteria. A list of the most vulnerable areas was furnished to the concerned VA departments for consideration during their own assessments. In addition to our audits of internal controls, we will monitor and evaluate the effectiveness and compliance with OMB requirements of the agency's internal control review activities.

As part of the President's Council on Integrity and Efficiency coordinated effort to combat fraud, waste and mismanagement in Government programs, the VA's Office of Inspector General is the lead agency in the project, "Federal employees receiving Government assistance." Work has begun on computer matches of records of over 10 million Federal civilian, military personnel and annuitants. These matches will be used to identify those who are improperly receiving Federal assistance and/or who have delinquent debts. Fifteen income-dependent programs, in which Federal employment usually precludes entitlement to Federal benefits, will be reviewed. Participants include the Departments of Education, Labor, Health and Human Services, Agriculture, Transportation, and the Veterans Administration.

I appreciate the opportunity to describe my operations to the committee and would be pleased to answer any questions you might have at this time.

PREPARED STATEMENT OF JOHN L. PRESSLY, ASSOCIATE DEPUTY GENERAL COUNSEL, VETERANS' ADMINISTRATION

Mr. Chairman and members of the subcommittee, I am pleased to testify before the Subcommittee on Oversight and Investigations regarding the debt collection program of the Veterans' Administration. Accompanying me today are Mr. Jack Sharkey, Deputy Assistant Administrator for Data Management and Telecommunications and Mr. John Hagen, Deputy Chief Benefits Director.

Mr. Chairman, as you know, the President, the Administrator of Veterans' Affairs, the Congress, and many others in and out of Government are seriously concerned with the large number of debts owed the Federal Government. In particular, the VA is greatly concerned with collection and proper resolution of the sizeable debt which has accumulated over the years in conjunction with the operation of veterans benefits programs. The bulk of this debt has resulted from participation in VA education benefit programs. These education debts arise from overpayments, or to a much smaller extent in terms of dollar value, defaults on education loans. In

addition, there are overpayments in the compensation and pension programs as well as deficiencies in the loan guaranty program.

To give you a picture of the overall VA indebtedness as of March 31, 1982, the Agency maintained 623,792 accounts for $617,056,610 in active collection at its centralized Accounts Receivable System (CARS) in St. Paul, Minnesota. We also have temporarily suspended active collection action on another 857,728 accounts for $280,991,964 which are recorded in our master record system at Hines, Illinois. Accounts in these two systems, active and inactive, represent 1.4 million veterans who are indebted to this Agency.

Debt collection and prevention is high on the list of priorities at the VA. Public Law No. 96-466 provided several very useful tools in the collection area and provided a statutory base upon which the Agency can address the issue of VA indebtedness. Plus, OMB Bulletin 81-17 requested each Agency and Department to establish debt collection officials and expressed the President's concern for a Government-wide collection program. I have been designated by Administrator Nimmo as the Agency Debt Collection Official and have been charged with the responsibility of identifying and coordinating the resolution of issues relating to debt collection. In this regard, I would like to discuss how the VA has responded to its debt collection and prevention responsibilities.

In the area of debt collection, Public Law No. 96-466 provided authority to the VA to (1) offset from current benefits irrespective of the statute of limitations; (2) assess interest and administrative cost on delinquent accounts and those being paid by installments; (3) report delinquent accounts to consumer reporting agencies; and (4) litigate debts arising from benefit programs. I would like to discuss each of these provisions.

First, the VA has the common law right to offset indebtedness against current benefits. This recovery of moneys improperly disbursed is recovered in a quasi-contractual suit for unjust enrichment. Additionally, the Federal Claims Collection Act requires the Administrator to seek recovery of debts owed the Agency. With the enactment of Public Law No. 96-466, the VA now has its own statutory authority to offset benefits for debts owed. Proposed implementing regulations were published in the Federal Register on December 23, 1981, and will be finalized in the next few months. Currently we are offsetting 21,742 accounts for education debts, 29,261 accounts for compensation and pension debts, and 2,853 accounts for direct loan guaranty debts.

Second, final regulations implementing the charging of interest and administrative costs of collection were published in the Federal Register on December 22, 1981. The necessary functional and technical specifications are being developed to complete the effort. The project is on schedule and a completion date of November 1982 is expected for the education accounts. This will represent 87 percent of the accounts receivable. The compensation and pension accounts will follow in October 1983. This split approach is necessary because of the complexity of the data processing systems involved at both Hines and St. Paul and the resource constraints.

Third, Public Law No. 96-466 directed the VA to conduct a litigation program, using VA attorneys where necessary, to pursue enforced collections of debts owed the Agency. A Memorandum of Understanding was signed by the Department of Justice and the VA giving the VA sole litigative responsibility for all debts where the amount of the debt is $1,200 or less. This program is conducted within the Office of General Counsel by utilizing offices of the 55 District Counsels.

At the time the Agency budget was prepared for Fiscal Years 1981 and 1982, we did not anticipate the expansion of the District Counsels' program as it now exists based on Public Law No. 96-466 and the Memorandum of Understanding. At that time, we anticipated monthly referrals to District Counsels of 6,000 accounts; however, now the referral rate is approximately 1,200 accounts per month. At the present time, 120,952 accounts for $74.2 million are pending in the various District Counsel offices. Of the 174,000 total accounts referred, 41,182 accounts for $27 million have been disposed either by payment in full, waiver, compromise, or termination. Also, 24,211 complaints for $14.9 million have been filed and judgments taken on 9,482 accounts for $6.1 million.

In November 1981, Administrator Nimmo allocated additional staffing for the District Counsel program. Currently, this program has 164 FTEE devoted to debt collection. This additional staff has eased backlogs and improved the ability to collect.

In spite of the initial problems in the District Counsel program, I believe considerable progress has been made. It was not until Febuary 1981 that all District Counsel office personnel had been trained in debt collection. Cash collections for fiscal year 1981 totalled $2.1 million. Cash collections for the first quarter of fiscal year 1982 were approximately $3.5 million.

Fourth, reporting delinquent debtors to Consumer Reporting Agencies (CRA) was authorized by Public Law No. 96-466. A Request for Information was published in the Commerce Business Daily on July 21, 1981, and nine CRA's responded. We considered their responses and have requested additional data concerning a variety of issues, including their computer capacity and ability to utilized VA data. As you may be aware, any referrals to CRA's would have to be on an automated basis utilizing the VA's ongoing computerized system of records. I do not believe it would be economically feasible to begin photocopying and referring hard copies of files to CRA's.

Following the receipt of information from the CRA's interested in assisting the VA in collections, a Request for Proposal will be issued. This will include the writing of functional and technical specifications and the contracting with at least five CRA's in order to obtain nationwide coverage.

Mr. Chairman, as I mentioned earlier, active collection action on a large number of accounts was suspended during the period prior to Public Law No. 96-466. Approximately 800,000 suspended accounts exist in the master record at Hines. On May 10, 1982, 654,869 of accounts (education) were reactivated and placed on the Central Accounts Receivable System (CARS). I anticipate that in July 1982, 120,000 additional accounts (compensation and pension) will be added to this CARS registry, totaling approximately 1.4 million accounts. During the following few months, these CARS accounts will have their addresses updated through the Internal Revenue Service and in November 1982 each individual will be notified of the Agency's intent to charge interest and administrative costs of collections.

As a result of the authority to offset, we have greatly reduced the number of accounts placed in a terminated status. Also, with the reactivation of the previously suspended accounts the number and amount of debts owed the VA will rise sharply. This situation is compounded by the declining enrollment in educational programs which heretofore gave us a method by which we could offset an indebtedness from current benefits.

Mr. Chairman, the high default rate in the education loan program was instrumental in the termination of that program, except for the small number of loans to certain veterans enrolled in the flight training program. Thus, the VA has on hand 36,764 defaulted educational loans representing $32,882,906 which reside at the various Regional Offices. These loans are currently referred from the Regional Office to the District Counsel for enforced collection; however, they will be transferred to CARS this year to insure better management and control. Further, I believe it is mandatory that these defaulted loans be consolidated in CARS so that the VA and the veteran are provided a true account of the indebtedness to the Federal Government. Without appropriate controls, we would find ourselves pursuing an educational loan debt and an overpayment in two separate actions before the same judge.

Before I move into other areas of debt collection and prevention, I believe it would be appropriate to discuss to CARS unit within the St. Paul Regional Office and Insurance Center which is the focal point for debt collection activity. Most accounts receivable established in the Hines Master Record after January 1975 are under the jurisdiction of CARS. The only exceptions are the active records with overpayments, education loans (previously discussed), death cases and loan guaranty debts where the veteran has benefits available for offset. While Hines retains accountability for the accounts, CARS maintains a record until collection or disposition is effected.

After being established in the CARS record, receivable processing begins with a series of computer-generated letters sent to the veteran. These letters are recorded in the CARS records along with any other transactions (such as payments) processed against that record. Update of this record occurs daily and is controlled by an extensive diary system. CARS is responsible for replying to all correspondence received from the veteran after the receivable is established. Recently, this amounted to an average of 76,000 pieces of mail per month. With the reactivation of the suspended accounts, this volume is estimated to increase to 186,000 pieces of mail per month. Locator actions, repay plans, audits, suspensions, waivers, compromises, etc., constitute the main portion of the CARS workload. Currently, the CARS unit is staffed with 157 FTEE. In fiscal year 1983, it is anticipated that approximately 180 FTEE will be needed to process the increased number of accounts and to implement the new debt collection initiative.

Mr. Chairman, at this time I would like to bring to your attention our reimbursement program for the cost of medical care furnished to injured veterans in those situations where the care was provided for a job related injury or where some third party caused the harm or injury.

Under the Federal Medical Care Recovery Act (FMCRA), enacted in 1962, the United States has the right to recover the reasonable value of health care and serv-

ices furnished veterans "under circumstances creating a tort liability upon some third person." Under this Act, the United States has an independent right of recovery and is also subrogated to the veteran's right or claim against the negligent third party.

Thus, the FMCRA authorizes recoveries only when the occasion for care arises out of the act of a tortiously liable third party. Until the passage of Public Law No. 97-72 in 1981, the VA did not have a specific statutory basis to pursue collections for injuries when no tort liability need be shown, such as under workers' compensation, automobile no-fault accident insurance, or a State's crime-victims compensation program. Rather, such collection efforts were pursued under various State laws. Our collection efforts were further hampered by various adverse court decisions and State statutes that provided payment to private health care providers but excluded payment to Federal health care providers.

To overcome these obstacles and to provide for uniformity in recovery procedures in all States, section 106 of Public Law No. 97-72 was enacted. Specifically, this law provides a statutory basis to pursue collections for the veteran's care for a nonservice-connected disability from workers' compensation carriers, automobile no-fault insurers, and States that pay for the cost of health care provided to victims of crimes. In fiscal year 1981, the VA recovered $8,791,695 in hospital costs. Approximately one-half of this sum was the result of our recoveries for work-related injuries and illnesses. However, since this provision took effect on May 3, 1982, we do not have any monetary figures that would indicate the impact of this new law on our recovery program. We are optimistic that our next annual statistics will show a favorable increase.

Mr. Chairman, the collection of debts owed the Federal Government also applies to employees of this Agency. *AFGE* v. *Nimmo*, Civ. No. 82-0022-A (E. D. Va. filed January 15, 1982), was a class action suit against the VA, seeking to enjoin further implementation of the VA's efforts to recover the cost of medical care furnished some 465 VA employees, was filed on January 15, 1982, in Federal district court in Alexandria, Virginia. The action was brought by the AFGE and four named plaintiffs on behalf of the class of present and former employees of the Federal Government who are veterans and who had been notified by the VA that they were ineligible for past and continuing medical care at the VA facilities for nonservice-connected disabilities. The class also purported to include all Federal employees who are veterans and who may be deterred by the VA's actions and programs from requesting and receiving VA assistance prior to a determination of their eligibility.

The plaintiffs asked that DM&S Circulars 00-81-56 and 10-81-234 be declared unlawful and that their implementation be enjoined. These circulars provide for the recovery of the cost of care provided to ineligible veterans who are Federal employees. In particular, Circular 00-81-56 directs that all VA employees who are veterans be notified that the signing of an affidavit of inability to pay for medical care in order to receive free VA care when the patient is actually able to afford the care, may be fraudulent. In addition, it requests that these employees be told of imminent initiation of collection action by the VA against ineligible VA employees. Circular 10-81-234 sets out the procedure for billing ineligible veterans who are VA employees. This suit alleged that the VA's cost recovery program is arbitrary and an abuse of discretion, and should be judicially set aside. The suit also contended that the VA deprived plaintiffs of their property (i.e., their eligibility for medical care) without due process of law in violation of the Fifth Amendment.

The 465 VA employees being billed were identified in an audit conducted by the Veterans Administration's Inspector General (I.G.). That audit focused on use of VA health care benefits in fiscal year 1978 by nonservice-connected (NSC) veterans employed by the VA whose eligibility for medical care was based on an asserted inability to pay for the care in the private sector. In reviewing employees' use of such benefits, and attempting to determine their actual ability to pay, the I.G. excluded from consideration individuals whose average annual cost for medical care plus average cost of health insurance, exceeded six percent of their gross VA salary rates. The I.G. determined that this six percent figure was a valid breakpoint separating families with unusual health care costs from those with more typical health experience in 1978. The percentage figure was based on a review of a variety of statistical sources.

All of these measures indicated that an average family in the $15,000 salary range spent approximately six percent of that salary for health care. This salary range was selected as being higher than that of the average American family's range at that time. These employees earned more than the average family and would have spent proportionately less of their incomes for health care than the average family. In light of that information and particularly based on the finding

that each employee had Government sponsored health insurance, the I.G. concluded that these employees, all of whom had obtained VA hospital care, should be billed for their VA care. The Administrator concurred in the I.G.'s conclusions.

The eligibility for VA health care benefits of nonservice-connected veterans under the age of 65, including these VA employees, is generally based on the veteran's inability to defray the cost of such care. Prior to the enactment of Public Law No. 96-330 the VA had no authority to look behind the poverty oath in connection with the providing of medical care. Veterans who applied for care and certified their inability to afford private treatment could not, as a matter of law, have been subjected to income screening and denied VA care. Where evidence of such a veteran's ability to have paid for care subsequently came to light, however, the VA did, and does, have the authority to charge the individual for the cost of the care provided. Regulations implementing the VA's statutory authority to furnish health care state that the VA will not provide care without charge when it is believed that veterans may be entitled to care or reimbursement for the cost of care by reason of their rights under a group health plan or insurance contract. See 38 C.F.R. § 17.48(d). Independent of that authority, a United States Court of Appeals in *U.S.* v. *Shanks*, 384 F. 2d 721 (10th Cir. 1967), has held that the VA is entitled to collect for services rendered a veteran when that individual receives benefits based on his/her asserted inability to defray and, in fact, had been financially able to pay for the care. In holding that the VA is entitled to collect under such circumstances, the court reaffirmed the longstanding principle that the United States is entitled to maintain a recovery action on a nonstatutory basis. In addition, the Federal Claims Collection Act (31 U.S.C. §§ 951-953) mandates that the head of an agency take aggressive recovery action on all claims where a right to recover exists. 31 U.S.C. § 952(a).

On April 15, the district court which heard *AFGE* v. *Nimmo* issued its order, granting the VA's motion for summary judgment. The court in that opinion reviewed in detail the VA's employee medical care cost recovery program and held that the program has a sound legal basis and does not violate the constitutional and statutory provisions raised by the plaintiffs. The court cited with approval the *Shanks* decision, 384 F.2d 721 (10th Cir. 1967), agreeing with the VA's position that the VA has the common law right to recover the costs of medical care provided to NSC veterans. The court found support for this right in the Federal Claims Collection Act and in the VA's own regulations. In rejecting the AFGE arguments, the court held: (1) that the combination of the VA's preliminary billing criteria and the criteria for waiver produced a rational definition of the inability to defray standard; (2) that the VA's billing determinations were not arbitrary and capricious; (3) that the VA's retroactive recovery program was valid because the VA's appeals process allows the VA to take any prejudice or hardship to individuals into account; and (4) that the constitutional right to equal protection was not denied to veterans.

The court found that the Federal Government has a right to place a higher standard of conduct on its own employees than on other persons. Furthermore, the court noted that billing VA employees may be merely the first step in a larger program to recover medical treatment costs from all ineligible veterans. Accordingly, it found that singling out employees at this time for billing is not a prohibited classification under the equal protection clause. The court offered "some initial guidance" as to the manner in which it believed the VA should exercise its waiver authority. The court suggested that the VA waive its claims against veterans to the extent that they have lost the opportunity to recover from their own insurers for the cost of the VA care. The court also suggested that the VA should waive its claims against veterans whose insurance policies would have paid for care in a non-VA facility but who were not advised to seek such care, and instead received treatment from the VA. The court did not, however, make its suggestions mandatory.

The VA is processing each request for waiver or appeal from billing on an individual, case-by-case basis in accordance with existing VA regulations and procedures. We are concerned that blanket waivers of indebtedness, as was suggested by the court, may be inconsistent with the law empowering the Administrator to waive indebtedness. Section 3102 of title 38, United States Code, authorizes the Administrator to grant waivers. We are continuing to review this issue in light of the comments by the court to insure that inequitable treatment does not occur.

Mr. Chairman, I believe that debt prevention is as equally important as the collection of delinquent debts. The Agency has embarked upon several prevention measures and I would like to briefly outline them at this time.

First, check intercept procedures have been initiated for stopping checks at Post Offices where overpayments have been discovered after the check has been issued.

Second, priority is being given to the processing of death notices where there may be a potential for any overpayment.

Third, increased enforced collection action in the area of school liability cases has been instituted. However, many of these schools are almost judgment proof when they reach the VA and Department of Justice for litigation.

Fourth, we are attempting to devise a procedure to closely monitor those schools with veterans who experience high incidents of overpayments in an effort to discover "problem areas" as soon as possible.

Fifth, consideration is being given to requiring monthly certification of attendance by those veterans enrolled in non-college degree courses.

Sixth, instructions have been transmitted to each Regional Office stating that before an award is made for benefits, the veteran's file will be checked to determine if any indebtedness is owed. If so, action will be taken to offset that award by the indebtedness.

Seventh, financial institutions with the authority to automatically approve VA guaranteed mortgage loans will now be required to contact the local VA Regional Office to determine if the veteran has an outstanding debt before the home loan can be approved.

Mr. Chairman, I believe the debt collection program at the VA is cost effective and is responsive to the intent of Public Law No. 96-466. Also, I believe we are taking positive long-term measures which will enable us to collect and prevent overpayments in various benefit programs. During fiscal year 1981, $5.16 in cash was collected for every dollar spent on VA debt collection. This calculation considers the costs of 356 FTEE for General Counsel, Office of Data Management and Telecommunications, Budget and Finance, Department of Veterans Benefits (CARS and Regional Offices). For fiscal year 1982, 535 FTEE have been identified with the VA debt collection effort and 614 FTEE for fiscal year 1983 have been requested.

Mr. Chairman, this concludes my statement and I will be pleased to respond to any questions at this time.

PREPARED STATEMENT OF HON. ELWOOD H. HILLIS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF INDIANA

I join you in welcoming Mr. Frank Sato, the Inspector General of the Veterans Administration, in his first formal appearance before our Committee; I also want to welcome Mr. John Pressley, the new Associate General Counsel of the Veterans Administration, in his first such appearance.

Mr. Chairman, I too applaud the independent nature of the Inspector General's office. I think that if the office is to be the success we want it to be that it is fundamental that it be free to inquire into all aspects of the VA's vast operations. At the same time, I would hope that the Inspector General's people approach their task in a spirit of cooperation with the rest of the VA to the end that an adversarial situation does not arise. I am confident that Mr. Sato shares my feeling in this regard.

Mr. Chairman, the Inspector General has a most responsible role to play at VA, and I wish him well and I look forward to hearing his testimony this morning.

Mr. Pressley also has a very important role to play. Debts owed to VA are staggering, and the amount of money being spent to collect those debts and the people required to do it is most significant. The Congress has given the VA the tools it wanted to improve its situation and all of us hope for good results. I also look forward to hearing Mr. Pressley's testimony.

Thank you, Mr. Chairman.

VETERANS' ADMINISTRATION,
OFFICE OF THE ADMINISTRATOR OF VETERANS' AFFAIRS,
Washington, D.C., June 30, 1982.

Hon. G. V. (SONNY) MONTGOMERY,
Chairman, Committee on Veterans' Affairs,
House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: Thank you for your letter of June 9, 1982 in which you requested responses to questions developed by yourself and the Honorable Elwood Hillis concerning testimony offered by Agency officials during the Subcommittee on Oversight and Investigations hearing on that day. Enclosed are the responses which have been prepared by the Office of Inspector General.

We appreciate this opportunity to provide additional information for inclusion in hearing record.

Sincerely,

ROBERT P. NIMMO, *Administrator.*

Enclosures.

QUESTIONS OF CHAIRMAN MONTGOMERY

Question. 1. The Inspector General's Report number 7 states that substantial cost avoidance can be realized through better construction planning and review procedures, including patient workload identification, space deficiency and demographic data. Prior to the enactment of Public Law 96-22, requiring approval of certain construction projects, we were informed that the Veterans' Administration utilized a very extensive GAO approved process which considers these factors in their planning process. What specific remedial recommendation have you made to improve the construction planning process?

Answer. Our recommendations on the construction planning process are contained in our draft report entitled Selected Major Construction Projects. We recommended that Department of Medicine and Surgery (1) perform more thorough onsite reviews of project proposals, (2) deemphasize strict reliance on agency space criteria and place more emphasis on actual space needs, and (3) require medical center management to submit detailed justification to support requests for construction projects. The Department concurred with these recommendations, and the final report will be issued soon.

Question. 2. Report number 7 indicates that audits of the fee-basis medical care program continually show that payments are made for unauthorized services; beneficiaries are allowed to receive fee-basis care for longer periods than regulations allow and payments higher than allowed, are made. What recommendations has the Inspector General made to the Chief Medical Director to strengthen controls on the authorization of fee-basis services?

Answer. We have recently completed audits of two fee-basis programs: home health services and hemodialysis. We have also audited fee-basis care functions at several medical centers and outpatient clinics. These audits have resulted in three basic recommendations. First, invoice payment practices should be improved. Clinic staff need to conscientiously apply authorized fee schedules against total costs claimed and to routinely disallow excessive claims. Second, better coordination is needed between Medical Administration staff and clinical staff to determine which patients can be treated by the VA instead of by a fee physician. Third, Department and facility clinic managers need to provide Medical Administration personnel with clear instructions for implementing agency policies on fee basis care.

Question 3. In IG audits of VA hospital procedures to determine eligibility of patient applicants, have you noticed an increase in computer terminal capability which would permit use of the BIRLS data files to determine veterans' eligibility for treatment?

Answer. The BIRLS data files are accessible at all VA medical centers. These files have been available for several years. We have not attempted to monitor the extent of use. DM&S is currently conducting a test at three of the medical centers with the TARGET system computer terminals. This system, which utilizes the BIRLS Data Base, enables the user much faster access. It would be premature to attempt to evaluate the success of the trial at this time.

Question 4. In the computer match activity reported in Section V of Report No. 7 to identify Federal employees receiving compensation or pension to which they are not entitled, how would such a match indicate entitlement or non-entitlement to compensation?

Answer. The computer match was performed to identify Federal employees who were receiving pension or compensation benefits that were based upon minimal income or unemployability. Only compensation beneficiaries receiving an additional benefit based upon individual unemployability were targets of the match. Federal employment would indicate a nonentitlement to the additional compensation based upon individual unemployability.

Question 5. In the Inspector General's Report No. 6, it was indicated that the Office of Investigation's technical library was in the process of determining the feasibility of identifying fraudulent loan guaranty applications by document analysis and the survey would include 200 loan guaranty folders. In Report No. 7, it is indicated that of 17 significant cases involving veterans home loans, 11 were found to

contain one or more fraudulent loan documents. Please explain how these reports relate to each other, and what was your decision on using this method of analysis?

Answer. The information regarding the Technical Laboratory's feasibility study for identifying fraudulent loan guaranty applications by documents analysis that was presented in report No. 6 does not relate to the 17 significant cases involving veterans' home loans that were mentioned in report No. 7.

The feasibility study mentioned in report No. 6 was a special study based upon information contained in an FBI report which indicated the possibility of fraudulent activity on the part of a real estate broker in California. Of the approximately 200 folders reviewed by the laboratory, only four minor discrepancies were uncovered.

The 17 cases presented in report No. 7 represent results of an ongoing activity by the Technical Laboratory in which the Laboratory reacts to requests for document examinations from the VA Loan Guaranty Office and from our investigators. Although the results of the special study were insignificant, we are continuing to explore the possibility of using the Technical Laboratory to actively seek out fraud in the Loan Guaranty Program rather than only reacting to requests.

Question 6. What were the Inspector General's recommendations to the Department of Veterans' Benefits to improve their benefits statistical quality control system, school liability for education benefits overpayment, and controls to prevent the continued issuance of benefit checks after beneficiaries die?

Answer. Our review of the Statistical Quality Control (SQC) system (the report of which has not been finalized) showed that it was not effective in measuring the quality of benefit payments. Actual error rates were higher than those reported by the SQC system. We recommended that:

(1) The SQC review function be performed by independent staff rather than direct line supervisors.

(2) Sample sizes be reduced and fixed.

(3) Causes to errors be researched thoroughly and corrective actions be taken. Specialized training, improved supervision, etc., should be provided.

Our audit of the School Liability Program showed it has not been effective in reducing overpayments caused by false or late reporting of changes in student enrollment status by educational institutions. We recommended that:

(1) DVB revise its procedures for identifying potential liability.

(2) The responsibility for monitoring school liability be assigned to single functional area in Central Office.

(3) The Quarterly School Liability Report be revised to make the report an accurate and useful tool to monitor the program.

(4) Timeliness standards be established for processing liability cases.

(5) Interim certifications be made on awards covering more than one semester.

(6) For schools identified as having liability problems, DVB should consider sending checks to the school for delivery.

Our review of the continued issuance of benefit checks after beneficiaries die has not been completed. We have recommended that periodic computer matches be made by DVB as a continuing control.

Question 7. Does the Inspector General audit the contract or fee-basis outpatient dental program for fraud? Is so, what have the audits revealed?

Answer. We are currently reviewing the fee-basis dental program. We have not yet formed any conclusions. The audit is presently scheduled for completion in August, 1982.

Question 8. Does the Inspector General audit State Homes providing hospital, nursing home or domiciliary care to veterans which are partially sponsored by the VA? Is to, what have the audits revealed?

Answer. We do not routinely audit State Homes because the primary responsibility for administering State Home contracts rests with the Department of Medicine and Surgery. These contracts are usually administered by the medical centers which have cognizance over the individual State Homes. The medical centers are required to perform periodic audits to insure that charges to the VA are correct, that adequate care is being provided, and that other contract requirements are being met. When we audit a medical center we may evaluate the effectiveness of the center's administration of the contract. If this review indicates serious deficiencies, then we may perform our own audit of the contract. Recent medical center audits have not found any significant problems with the administration of State Home contracts.

Question 9. Report No. 7 states that 119 external audit reports disclosed questioned costs of $7.5 million and $1.3 million in unsupported costs. In general terms, what actions would be taken concerning these two costs?

Answer. The external audit reports disclosure of questioned and unsupported costs are only advisory recommendations to the Contracting Officers in negotiating

and administering contracts and grants. The Contracting Officers would use the questioned costs in negotiations with the contractors. If the qustioned costs are sustained by the Contracting Officer the contract or grant amount will be reduced. This is reflected in our Semiannual Reports as costs sustained. In the case of unsupported costs, the Contracting Officer would require the contractor to substantiate the costs prior to or during negotiation. If unsubstantiated, these would be shown as questioned costs.

Question 10. What was the total budget for the VA's audit and investigations program for fiscal year 1978 and what was the record of cost savings and costs avoided that year? Please make a comparison of the fiscal year 1978 record and your record for April 1, 1981–March 31, 1982.

Answer.

[Dollar amounts in millions]

	Fiscal year—	
	1978	1982
IG budget	$6.4	$14.4
Average employment	218	345
Cost savings	$8	[1] $186.5

[1] April 1, 1981 through March 31, 1982.

Question 11. What was the dollar cost of Inspector General type audits conducted for the VA by other agencies or contractors for the two fiscal years preceding the establishment of the Office of Inspector General?

Answer. The dollar costs shown are for audits contracted out to other agencies. No other contracted audits of this type were conducted.

	Amount	Per hour
Fiscal year:		
1977	$55,944	$18
1978	99,002	19.50

The dollar costs of "IG type audits conducted by the VA" are not included in these figures. They are included in the answer to the following question under "Actual Cost of IG Operations."

Question 12. What have been the costs of the Inspector General operations, plus external audit costs, each fiscal year since the Office of Inspector General was established?

Answer:

	Actual cost of IG operations	External audit costs[1]
Fiscal year:		
1978	$6,431,000	$99,002
1979	10,521,000	197,188
1980	11,641,000	360,161
1981	12,319,000	474,714
1982 (estimated)	14,400,000	525,000

[1] The cost of doing external audits is included as part of the total actual cost of IG operations.

Question. 13. How many of the internal and external audits reported in Section 10 of Report No. 7 were accomplished by contract? What were the costs saved or recovered?

Answer. Audits Accomplished by Contract:

	Total number issued	Accomplished by contract
Internal audits	57	0
External audits	119	91

Costs saved or recovered are reported when audits are resolved which normally occurs months after an audit has been conducted or accomplished. For that reason, reporting of the costs saved or recovered on audits accomplished during the last 6-month period would result in incomplete and inaccurate savings information on these audits.

We are therefore providing the savings and recovery amounts on audits resolved during the period. These amounts are termed "Costs Avoided" (savings) and "Referred for Recovery" (recovery). "Costs Avoided" represents monies that could be saved as a result of management's commitment to implement audit recommendations. Referred for Recovery represents amounts which management has sustained and has committed to recover.

[In millions of dollars]

	Costs avoided		Referred for recovery
	1 time	annual	
Internal audits	$111.3	$5.1	$0.2
External audits	2.4	0	1.6
Total	113.7	5.1	1.8

[1] Approximately $76.8 million of the $111.3 million represents recommended decreases in future construction requirements planned for funding in fiscal years 1984–89.

Questions of Hon. Elwood H. Hillis

Question 1. Do you feel that you are sufficiently independent from the Administrator as would be indicated by the law establishing your office?

Answer. The Office of Inspector General has been sufficiently independent from the Administrator of Veterans' Affairs. Audit and investigative topics are selected independently by my office, although requests for audits or investigations by the Administrator and staff offices are given full consideration. No instances have occurred in which there was actual or attempted prevention or prohibition of an audit or investigation. Information and assistance requested for audit and investigation activities have not been refused or not provided. Reports to Congress on OIG activities and findings have been transmitted as required under the IG Act; the Administrator has never attempted to compel a change in these reports.

Question 2. In the last sentence on page 2 of your testimony you indicate that all Medical Centers are audited every three years. Is this true of Regional Offices, Data Processing Centers, and Cemeteries? Do you feel that the cycle of three years is appropriate?

Answer. We do not currently have an operational audit cycle for VA Regional Offices, Data Processing Centers and Cemeteries. There is an established three-year cycle for these facilities that we have not been able to maintain due to staffing limitations.

A five-year cycle is being contemplated for Regional Offices, with additional program audits of the Department of Veterans' Benefits operations, beginning with fiscal year 1983.

I do believe that a three-year audit cycle for Medical Centers is appropriate. If the cycle were any shorter, the managers would not have time to fully implement recommendations from previous audits. A longer cycle would risk having insufficient audit coverage at many of the Medical Centers.

Question 3. On page 2 of your testimony, you state that when resolution of recommendations cannot be reached at lower levels of the Veterans' Administration that the issue is then referred to the Deputy Administrator. You state that there has only been one case of this nature since you have been appointed. Please explain that case.

Answer. The audit of VA Medical Center Chicago (Westside), Illinois concluded that a proposed 8-bed hemodialysis unti at the medical center was not needed based on patient workload and the availability of other VA and community resources in the immediate proximity. My office recommended that the unit not be established, the newly purchased equipment be excessed, and funding for personnel and supplies be cancelled. The Chief Medical Director did not concur with the recommendation based on quality-of-care related issues and proposed that a 4-bed hemodialysis unit be established.

The OIG and the Chief Medical Director met on several occasions to resolve this issue but were unable to do so and it was referred to the Deputy Administrator for a final decision. The final decision was for establishment of a 4-bed hemodialysis unit.

Question 4. When the Department of Medicine and Surgery has already begun discussions leading to cancellation or changes of construction projects with your authors then coming in to begin an audit, do you take credit for any cost avoidance that might occur?

Answer. If we know that the Department intends to cancel or reduce a project, then we will not audit it. If, however, the Department has only begun reevaluating the project, then we may audit the project to develop information and recommendations that will help in making a final decision. My office would take credit for cost avoidance only to the extent that the final decision on the project was based on our audit work.

Question 5. It is my understanding that you are required to report on unresolved recommendations not only to the Administrator but to the Congress and that you must do this every six months. Do you have any major unresolved recommendations?

Answer. The VA has one major unresolved recommendation. An Office of Inspector General audit of the Civilian Health and Medical Program of the VA (CHAMPVA) disclosed that CHAMPVA benefits of about $45 million a year are paid without adequate verification of beneficiary eligibility. The OIG recommended transfer of CHAMPVA from the Department of Medicine and Surgery to the Department of Veterans' Benefits which has the staff and computer capability to properly administer the program. The Chief Medical Director and Chief Benefits Director do not concur with the recommendation.

The recommendation is within the 6-month time limit for resolution; the due date is 9/30/82. The OIG, Chief Medical Director, and Chief Benefits Director will attempt to resolve the recommendation or, if resolution cannot be achieved, it will be referred to the Deputy Administrator for a final decision

Question 6. How does your office relate to the Medical Inspector General? Do you feel there is any overlap here?

Answer. As a result of our July 1979 recommendation that the Chief Medical Director establish an office to carry out quality-of-care medical-investigations, the Office of Medical Inspector was established on September 21, 1980. The Office of the Inspector General does not conduct quality of care medical investigations, but oversees the work of the Medical Inspector.

As a member of the Chief Medical Director's staff, the Medical Inspector has primary responsibility for the evaluation and oversight of all quality-of-care matters within the VA. The Medical Inspector has a significant role in VA activities in assuring that the VA provides high quality medical care and that all out-of-line situations are corrected.

Coordination of the Medical Inspector's activities indicates that his office pursues the quality-of-care investigations in a timely manner. My judgment, from a nonmedical perspective, is that the Medical Inspector performs a thorough examination of the issues. Recommendations made as a result of his investigations have resulted in numerous actions being taken against health care professionals found lacking in the provision of high quality medical care and in significant improvements being initiated in deficient health care systems.

Question 7. Why do you feel that you need new field offices? Is this cost effective?

Answer. Realignment actions were taken to streamline the management structure of the Office of Inspector General, increase staff productivity, save money, and improve the effectiveness and morale of the staff. Our first year's experience with the new organizational alignment indicates that the anticipated benefits from the realignment actions are being achieved.

The expansion in the number of Regional Offices from four to seven has improved both the effectivenes and morale of the staff. The realignment how puts the audit staff closer to its major clients and provides the opportunity for the staff and client to develop a better, more effective working relationship. In addition, the realignment puts the Regional IG staff generally within a weekend return distance from

home. This had a very favorable impact on morale of a highly mobile staff and reduces turnover and costs associated with this turnover.

Question 8. It is my understanding that you have authority to hire your own employees. Do you use the Veterans' Administration Central Office Personnel Service to assist you in this endeavor or do you have your own personnel set up?

Answer. The Office of Inspector General does not have its own personnel office. All Inspector General personnel are hired through the Veterans' Administration Central Office of Personnel Service.

Question 9. On page 5 of your testimony, you talk about redefining the mission of the domiciliary program. Just what do you mean by this?

Answer. Responding to our audit recommendations, the Chief Medical Director has developed a proposed Domiciliary Mission Statement. The statement recognizes that domiciliaries should provide a level of care below that provided by Nursing Home Care Units. This distinction is important because it will no longer be necessary to design new domiciliaries so that they can be converted to nursing home care facilities. The convertibility features are very expensive. By eliminating the requirement for these features the VA can substantially reduce the cost of domiciliary construction.

Question 10. Do you have any idea how many compensation, pension, or education benefit checks are going to deceased persons?

Answer. The Office of Inspector General, with the Department of Veterans' Benefits, is purifying the raw hits from a computer match to identify benefit checks going to deceased persons. We have identified 5838 raw hits. It is unclear whether the beneficiaries are, in fact, deceased or simply using the Social Security Number of a deceased parent or spouse (while properly entitled to the benefit). After our purification processes are completed and field visits are made, the number of actual improper payments will be available.

Question 11. You have indicated that you have recommended changes in reenrollment procedures under the GI Bill which, if accomplished, would result in savings of nearly $16 million. Just what did you recommend?

Answer. We did not recommend changes in reenrollment procedures. Our recommenation resulted from our audit of the Centralized Accounts Receivable System (CARS). Many accounts receivable are liquidated because the debtor veteran has reenrolled in training and the debt has been offset against his educational benefits. We found that it was possible for the debt to be completely "liquidated" even though the veteran had withdrawn from training after he had reenrolled. Not only was it possible for the accounts receviable to be incorrectly liquidated, but it was also possible for the veteran to receive additional payments. We recommended that the Department of Veterans' Benefits determine the feasibility of confirming the debtor's reenrollment before removing the liquidated accounts receivable from CARS and before resuming benefits payments to the veteran. The Department concurred with this recommendation.

Question 12. On page 5 of your testimony, you talk about false medical research. Would you please elaborate?

Answer. "False Medical Research" relates to a small number of cases investigated where VA employees, usually physicians, were allegedly conducting research, generally for private pharmaceutical companies, without the knowledge or permission of the VA Medical Research Service Merit Review Board. Often, the research funds were not deposited in the General Post Fund, as required, but were placed in the physician's personal account. In some instances, the veteran patients were not aware that they were being used as research subjects and had not signed the required consent forms.

Question 13. On that same page of the testimony, you state that management has concurred with your recommendation to re-evaluate planned replacement domiciliaries. Has management actually done this and, if so, did you take credit for saving $77 million in this regard?

Answer. The Department of Medicine and Surgery is in the process of reevaluating planned replacement domiciliaries. The Office of Inspector General reported "Costs Avoided" of $76.6 million on this audit. This amount represents monies that could be save based on management's commitment to perform re-evaluations. Savings could be realized by reduced construction costs if conversion to nursing homes is not required. Renovation instead of newly constructed facilities, and reduced costs of new construction would be possible. (See response to Question 9).

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